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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

H.R. 2883

AN ACT MAKING APPROPRIATIONS FOR RURAL DEVELOPMENT, AGRICULTURE, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1990, AND FOR OTHER PURPOSES

PART 2 (Pages 1-494)

DEPARTMENT OF AGRICULTURE

NONDEPARTMENTAL WITNESSES

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, APRIL 11, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:04 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Kerrey, Cochran, and Grassley.

DEPARTMENT OF AGRICULTURE

STATEMENT OF ROLAND R. VAUTOUR, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT

ACCOMPANIED BY ROBERT E. SHERMAN, DEPUTY BUDGET OFFICER

FARMERS HOME ADMINISTRATION

STATEMENT OF NEAL SOX JOHNSON, ACTING ADMINISTRATOR

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF JOHN MARSHALL, MANAGER

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF JACK VAN MARK, ACTING ADMINISTRATOR

INTRODUCTION OF WITNESSES

Senator **BURDICK**. Good morning, ladies and gentlemen. This morning, we continue our hearings reviewing the 1990 budget for Agriculture, Rural Development, and Related Agencies.

Today we will review the budget for Small Community and Rural Development programs at USDA.

With us this morning are Roland R. Vautour, Under Secretary for Small Community and Rural Development; Neal Sox Johnson, Acting Administrator, Farmers Home Administration; John Marshall, Manager, Federal Crop Insurance Corporation; Jack Van Mark, Acting Administrator, Rural Electrification Administration; and Robert E. Sherman, Deputy Budget Officer at the USDA.

We have statements from everyone, which will be made a part of this record.

Mr. Vautour, I will ask you to make your presentations first, after which we will take questions from the subcommittee.

PREPARED STATEMENTS

All of your statements will be made a part of the record at this point.

[The statements follow:]

STATEMENT OF ROLAND R. VAUTOUR

Good morning, Mr. Chairman and Members of the Committee. We appreciate this opportunity to be with you today to discuss the 1990 budget for the Small Community and Rural Development Programs of the Department of Agriculture. This budget represents the Administration's commitment "to keep America growing" while recognizing the special needs of some segments of rural America. In particular, it recognizes the compelling need of a vital national agricultural sector working in harmony and prosperity with its neighbors to provide the services they all must have to succeed in life.

It also recognizes that we can make a considerable contribution to the well-being of many rural communities if we assist in the improvement of their basic services and ultimately to the diversification of their income sources.

As the President said recently of the Nation, "We are headed the right way." We think that is true of our programs as well. I will review briefly what our budget includes for each of our agencies: The Farmers Home Administration, the Rural Electrification Administration, and the Federal Crop Insurance Corporation.

The Farmers Home Administration (FmHA) ended the 1988 fiscal year with an outstanding loan portfolio of about 1.6 million loans, both direct and guaranteed, totaling about $62 billion in farm, rural housing and community programs. That was about $2 billion less than the previous year and represented the write-off of uncollectible loans, the repurchase of loans by some communities, and payments on outstanding loans.

The 1990 fiscal year budget continues the direction and progress of the last Administration in several ways:

—It maintains the momentum in the transition of farm loans from direct to guaranteed loans.

The 1990 budget includes $3.4 billion for farm operating loans, of which $2.8 billion would be for guaranteed loans. To encourage private lenders' participation in making guaranteed loans, FmHA will be implementing provisions of the Agricultural Credit Act of 1987 relating to the establishment of a secondary market for such loans.

—It extends guaranteed lending to community program borrowers. Guaranteed loans of $50 million would be available for water and sewer loans, and $50 million would be available for community facility loans. These amounts would be in addition to $200 million in direct loans and $75 million in grants for water and sewer projects.

The business and industry program, which is already on a guaranteed loan basis, would be continued at a level of $96 million.

—It establishes a $360 million voucher program for rural housing as a cost-effective way of providing assistance to low-income families while allowing them greater mobility and choice of housing.

—It proposes additional asset sales; one way to reduce Government indebtedness, and in some cases, save borrowers thousands of dollars.

—It provides for the reimbursement of losses, including interest rate subsidies, on the existing loan portfolio.

—It reflects a substantial amount of assistance to existing borrowers through loan restructuring and other servicing actions, as well as assistance to new borrowers through credit sales of inventory properties, farms in particular, and loan assumptions.

The 1990 budget for the *Rural Electrification Administration* (REA) also continues the direction of the last Administration.

For more than half a century, REA has played an important role in improving the quality of life in rural areas by providing loans to its borrowers for the purpose of extending electric and telephone service to remote parts of this country. The program has been very successful.

Today, many REA borrowers can easily finance projects with private capital. The economic well-being of these organizations demonstrates the success of the REA program, but it also suggests it is appropriate to evaluate current needs in light of current budget constraints. REA borrowers are currently generating resources from within their own organizations, and we should build on that base. REA borrowers can and do secure supplemental financing from the National Rural Utilities Cooperative Finance Corporation, an organization formed by the cooperatives. Long-term financing is also readily available from other organizations such as the Banks for Cooperatives. More importantly, the strong, steady growth of these utilities, which has been made possible through subsidized loans, has made them financially capable of entering the private-money markets similar to investor-owned utilities.

The 1990 budget would reduce Federal subsidies of the REA programs by placing reliance on private-sector loans that would be partially guaranteed by REA. For the electric program, the proposal includes $1.265 billion, and for the telephone program, $100 million in partial guarantees of private-sector loans. Direct lending, which is subsidized by the taxpayer and is very costly, would be terminated at the end of fiscal year 1989 for both electric and telephone programs. For the telephone program, supplemental financing of $125 million would continue to be available from the Rural Telephone Bank. REA would continue to provide management and technical assistance to the borrowers.

The budget includes $575 million in prepayments and further encourages borrowers with outstanding loans from the Rural Telephone Bank and those with REA-guaranteed loans from the Federal Financing Bank to prepay without premium. All borrowers using this opportunity would have to agree not to seek further REA financial assistance. This would remove any REA imposed restraints that might limit their business options.

For the *Federal Crop Insurance Corporation* (FCIC), the 1990 Budget reflects increased rates of participation and an improvement in the loss to expenses ratio. It includes $226 million for administrative and operating expenses and $134 million for premium subsidy.

As you know, FCIC is a wholly-owned Government corporation that has been providing farmers with multiple-peril crop insurance since 1938. The stated purpose of the Corporation is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. The authorizing legislation was amended in 1980 to provide for nationwide expansion.

The present program constitutes a joint effort by the private sector and the Government in the delivery of the program. The 1980 amendment urged the use of the private sector "to the maximum extent practicable" and virtually all sales and service are now accomplished through a unique public-private partnership. In some cases, this partnership involves private sector sales combined with Federal underwriting and claims service; in others, we use the reinsurance process to involve risk-bearing insurance companies in direct sales and service.

In view of the repeated and continuing emphasis on crop insurance as the Federal Government's agriculture catastrophic risk management program, I want to assure the Committee and the Congress that the Department of Agriculture will utilize the resources of all of our agencies to assure that producers are aware of the program and have the opportunity to utilize it.

Additionally, we will continue to make improvements and initiate new actions designed to address the actuarial soundness of the product, consistent with accepted insurance principles, good business sense, and public policy in the context of the Department's overall farm program.

In summary, I would emphasize that the Federal budget deficit continues and is a concern to all of us. Each of us has a responsibility to look for ways to reduce Government spending. It is through the annual budget appropriation process that we have the opportunity to discuss these ideas with you. These proposals would produce outlay savings and reduce program costs in 1990. The savings would continue to grow in future years, while meeting the needs of our farmers and rural communities.

Mr. Chairman, this concludes my statement. I am accompanied today by the Acting Administrator of FmHA, the Acting Administrator of REA, and the Manager of FCIC. We will be happy to answer any questions that you or the Committee may have.

STATEMENT OF NEAL SOX JOHNSON

Good afternoon, Mr. Chairman and Members of the Committee. The Under Secretary and I do, indeed, appreciate this opportunity to discuss our 1990 fiscal year budget request with you and to report on our continuing efforts to assist that segment of rural America unable to obtain credit from regular commercial sources.

In 1988, the Farmers Home Administration closed out the fiscal year with an outstanding portfolio of about 1.6 million farm, rural housing and community program loans totaling $62 billion, including $4.5 billion in guaranteed loans. And, once again, most of the agency's efforts were devoted to helping those among its total of 244,000 farm borrowers who were having difficulty in making loan payments.

While an immense amount of staff time was required to implement the Agricultural Credit Act of 1987, servicing existing loans continued to be a high priority with the Farmers Home Administration.

Almost 56,000 instances of special servicing assistance were extended to our farm borrowers during the year, enabling them to continue in operation. This included 15,300 loans rescheduled or reamortized, 780 loans deferred, 26,800 subordinated to other lenders to allow new credit to be extended by the private sector, and 13,000 loans refinanced at the more favorable limited resource interest rates.

On a dollar basis, 62 percent of our direct operating and 74 percent of farm ownership loans were at the limited resource rate, which averaged 5 percent for farm ownership loans and 6 percent for operating loans. This represented a substantial saving for those borrowers.

Two other forms of special assistance—Operation Assist and interest buy-down—were continued, with notable success.

Operation Assist, an FmHA innovation, requires county office personnel to take an active role in securing guarantees for farmers who might otherwise not obtain operating credit. Last year, this approach helped 2,671 borrowers obtain guaranteed loans totaling $194 million.

Under the interest buy-down program, 2,338 loans involving a total of $283 million were approved, with a total of $16.5 million in subsidy payments to the lenders. This program, as you will recall, was enacted in the Food Security Act of 1985 for 3 years and was extended an additional 3 years by the Agricultural Credit Act of 1987.

As I mentioned, a very large amount of FmHA's time and energy last year was spent on the implementation of the Agricultural Credit Act, in particular the restructuring provisions. We mailed notices of loan servicing availability to more than 70,000 borrowers who were at least 180 days delinquent.

We received responses from more than 34,000 borrowers, over 49 percent, and we are now in the process of working with those borrowers with the goal of restructuring their loans, where possible, in order to keep them on the farm. We also are working with our other current borrowers, to help them meet their credit needs for this crop year. We expect to be successful with a good many of those who applied for servicing assistance.

While providing strong service and assistance to Agriculture, we are supporting new programs and ideas which continue Federal support yet provide for more local and individual choice in setting specific goals and objectives. Such programs include the intermediary relending program and guaranteed business and industrial loans. We are also providing assistance to rural business entities suffering economic hardship as a direct or indirect result of the 1988 drought. Let me now turn to the highlights of our budget.

BUDGET HIGHLIGHTS

The budget request for fiscal year 1990 proposes an overall program level of $5.3 billion of which $3.8 billion is requested for farm programs. We believe these levels can provide a strong program in farm credit and rural development. We are proposing some new ideas in the area of rural housing units which we believe can get the job done more efficiently in this time of serious national budget deficits.

The financial condition of many of our farm borrowers continues to be a concern. With $29 billion in farm loans outstanding, over $8 billion are delinquent. About twenty percent of this delinquency is in collection only accounts. About 85 percent of the delinquent amount has been in arrears for over 3 years and may well be uncollectible.

On a more positive note, the emphasis on guaranteed lending supported by this Committee has resulted in increased utilization of that program over the last few years. In 1985, our portfolio of farm loan guarantees was only $773 million and has grown to $3 billion as of the close of the fiscal year 1988.

In further support of our objectives of moving a substantial amount of Federal debt to the private market, we have proposed legislation to sell about $1.4 billion of rural housing and rural development loans in the private credit market.

FARM PROGRAMS

The farm program budget request for fiscal year 1990 is $3.8 billion. Within this total we are requesting $3.4 billion for farm operating credit. Continuing our shift to Federal guaranteed loans, $2.8 billion of this request is for guaranteed farm operating loans. Farm ownership loans would be $250 million and we would provide assistance to new farmers through credit sales of farm property inventory above this amount.

The interest buy-down program will continue in conjunction with guaranteed loan authorities. Guaranteed lending will also be encouraged as a first step in graduating existing agency borrowers to commercial credit, and by implementation of secondary market provisions of the Agricultural Credit Act of 1987. The state mediation program initiated this year is continued at the $2 million level and emergency disaster loans are shown at $50 million.

The budget also includes an appropriation request of $4.5 billion to reimburse the Agricultural Credit Insurance Fund for operating losses sustained in previous years. The losses are primarily due to interest rate differentials between our loan rates and the cost of money. There have also been substantial loan writeoffs due to the period of economic stress in the farm community.

RURAL DEVELOPMENT PROGRAMS

In the rural development program area, we will be emphasizing the traditional water and waste disposal system loan program. We are requesting $200 million for direct Federal loans and $75 million in water and waste grants. In addition, we are also requesting $50 million for Federal guarantee authority in this program. We feel that we can more economically serve the higher income communities with this option and target direct loan assistance to lower income communities.

We are also proposing to shift the community facilities loan program to a Federal guarantee basis. We feel we can serve a substantial number of communities and encourage the participation of the private credit market on a safe and efficient basis. The use of guaranteed loans will enable communities to establish a credit history and acquaint private lenders with these projects.

The request for the guaranteed business and industry loan program is at the basic level of $95.7 million. These guaranteed loans will be targeted to small-scale, family sized enterprises to reach more communities.

The intermediary relending program administered through the Rural Development Loan Fund will also be continued in fiscal year 1990 at the $14 million level. This Fund which was transferred to USDA from the Department of Health and Human Services in 1986, is used to make loans to small investment groups who in turn re-lend to promote economic and community development and provide employment opportunities in rural areas.

An appropriation of $1.5 billion is requested for reimbursement to the Rural Development Insurance Fund for interest subsidies and other losses.

RURAL HOUSING PROGRAMS

The primary housing problem in rural areas is affordability rather than availability of suitable housing units. Therefore, we are proposing another look at the housing voucher concept. The $360 million proposed for fiscal year 1990 will provide for support of 20,000 units. In addition to being less costly than the subsidized construction loans, vouchers provide recipients with increased choice in the housing market, and can be carried with the recipients should they decide to move.

We are also proposing to continue the direct multi-family housing loan program at the $100 million level to meet those housing needs in communities with little or no housing available, and to continue the smaller grant programs for farm labor housing, housing repair, construction defects and housing preservation.

SALARIES AND EXPENSES

The budget request includes a direct appropriation of $418 million to cover the administrative costs of managing the $62.4 billion portfolio and providing credit counseling and services to our over one million borrowers. We have equipped our 2,200 local offices with computers which can speed transactions directly into the system and provide good information back down to the counties and districts. Although we do need to put some finishing touches on the network and shift and improve equipment in some locations, the new system is already reaping benefits. A full assessment of our automation effort was conducted in fiscal year 1988 and early 1989. A report on the favorable results of this assessment was provided to the Committee within the last few weeks.

The budget year's staffing request is reduced by 160 from the 12,675 current full-time staff years authorization to 12,515. We feel that with the new computer system functioning well in most instances, this will be an adequate level to meet the most essential needs in our program areas. If unforeseen problems with the farm portfolio arise requiring additional staff resources, the Agriculture Credit Insurance Fund will be used to meet this need.

Mr. Chairman, our fiscal year 1990 budget request is designed to meet the most basic credit needs of rural America. At the same time, we are mindful of the important part we can play in bringing the Federal deficit situation under control. This concludes my formal statement. We have attached our usual Brief History of the FmHA which contains charts and other information on program levels through fiscal year 1988. I will be happy to respond to any questions. Thank you very much.

[CLERK'S NOTE: The report "A Brief History of Farmers Home Administration" is available in the subcommittee file.]

BIOGRAPHICAL SKETCH

NEAL SOX JOHNSON

Neal Sox Johnson, as Acting Administrator of the Farmers Home Administration, is responsible for the day-to-day management of a rural credit agency with a loan portfolio of $62 billion. The USDA's chief agency for rural development and farm financing, FmHA makes farm ownership and operating, single and multifamily housing, business and industrial, water and waste systems, and other essential community facility loans. A staff of 11,000 services more than one million such loans and makes new loans annually from 2,300 offices located throughout the United States, Puerto Rico, the Virgin Islands, American Samoa, Guam, and the Commonwealth of the Northern Marianas.

Mr. Johnson was appointed Acting Administrator by the Secretary of Agriculture on December 2, 1988, after having served as Acting Associate Administrator since February 1988. Previously, he had served as National State Director-at-Large, stationed in Fort Worth, Texas, since November 1985, and as Deputy Administrator, Program Operations, in the National Office in Washington for 4 years. In this position, he was directly responsible for all FmHA program operations. Mr. Johnson returned to FmHA in April 1981, as Executive Assistant to the Administrator, a position he held from 1973 to 1977.

After graduating from Henderson State University in Arkadelphia, Arkansas, in 1955, Mr. Johnson spent the next 5 years in premanagement technical fields of engineering, architecture, physical sciences and teaching. Since 1960, he has been involved in progressively management-oriented activities relating to financial lending institutions, real estate development and construction, and governmental affairs in both the private and public sectors.

Active in the Republican Party at the local and State levels since 1964, Mr. Johnson was Executive Director of the Arkansas Republican Party from January 1970 through January 1973. He has been named in several editions of Who's Who in America, including Universities and Colleges, Politics, and Government.

Mr. Johnson and his wife, Carmen Louise, make their home in Arlington, Texas. They have three children and three grandchildren.

STATEMENT OF JOHN MARSHALL

Mr. Chairman and members of the Subcommittee: It is a pleasure for me to appear here to present the 1990 Budget for the Federal Crop Insurance Corporation.

Our budget request for fiscal year 1990 is as follows:

ADMINISTRATIVE AND OPERATING EXPENSES

—$225.6 million for Administrative and Operating Expenses to fund the expanded crop insurance program, including,

—About $163.6 million for reinsurance administrative expense reimbursement,

—$2.4 million for FCIC loss adjustment contracting,

—$2.8 million to be reimbursed to ASCS for services performed under the ASCS National Agreement.

These amounts total $168.8 million, vary directly with the volume of business, and account for 75 percent of the Corporation's total request for administrative and operating expenses.

—$56.8 million will be used for the expenses of the Federal Crop Insurance Corporation to maintain field underwriting offices, field service offices, field compliance offices, the Kansas City Operations office—which includes corporate computer support, actuarial activities, claims processing, office automation, and management information costs—and the Headquarters staff.

In total, our fiscal year 1990 request for Administrative and Operating Expenses represents an increase of $23.6 million over the fiscal year 1989 appropriations. This amount is directly related to the anticipated increase in premium levels and to the incorporation of a share of expenses that was previously paid out of the Fund.

Additionally, consistent with the provision of Section 516(a) of the Federal Crop Insurance Act of 1980, as amended, Federal Crop Insurance proposes to utilize monies in the Insurance Fund in the amount of $22.1 million for Master Marketing expenses and $4.8 million for FCIC loss adjustment contractor expenses. These items would normally be provided by direct appropriation and will be submitted for reimbursement through appropriations in subsequent years.

PREMIUM SUBSIDY

—$134.1 million for premium subsidy for fiscal year 1990. This amount represents 30 percent of the expected premium, up to the 65 percent level of coverage, as authorized by the Federal Crop Insurance Act of 1980, as amended. The $134.1 million would provide for expansion of the crop insurance program to an estimated 65.8 million insured acres.

This represents an increase of $22.1 million over the fiscal year 1989 premium subsidy appropriation, which is due largely to the projected increase in premium levels and the reimbursement of subsidies paid in 1989 from the Fund. In accordance with Generally Accepted Accounting Principles, the premium subsidy appropriation for fiscal year 1990 consists of 90 percent of the premium subsidy for crop year 1990 and 10 percent of the premium subsidy for crop year 1989. Based on historical data, the actual effective subsidy for both crop years is estimated at 25 percent of total premium.

REIMBURSEMENT OF PRIOR YEAR ADMINISTRATIVE EXPENSES PAID FROM FCIC FUND

—$28.9 million for reimbursement to the FCIC Fund for administrative expenses incurred during prior years, but not previously reimbursed.

USE OF COMMODITY CREDIT CORPORATION FUNDS

—FCIC is currently reflecting the use of Commodity Credit Corporation funds in the amounts of $300 million in fiscal year 1989 and $175 million in fiscal year 1990 as a reserve against continued, unavoidable losses in crop years 1989 and 1990.

TOTAL REQUEST

This represents a total budget request for fiscal year 1990 of $563.6 million for on-going programs. The total requested for fiscal year 1990, including CCC transfers, is $50.4 million lower than the total 1989 appropriations for on-going programs.

CROP YEAR 1988 EXPERIENCE

Since the enactment of amended legislation in 1980, insurance has expanded from 1,676 counties to over 3,000 counties in 1988. County programs have increased almost 450 percent, from 4,629 in 1980 to 20,422 in 1988. Crop insurance was available in 50 states in 1988 and in all agricultural counties on acreage previously covered by disaster payments.

Acres insured, insurance in force, and premium have also increased substantially. In 1980 acres insured were 26.6 million compared with 54 million for crop year 1988. Insurance liability in force has also increased for the same period, from $3 billion in 1980 to $6.9 billion in 1988. Premium has increased from $158 million in 1980 to about $435 million in 1988.

The President's 1990 Budget submission for crop year 1988 insurance operations reflected premiums for the reinsurance share at $370 million and indemnities of

$1.3 billion, with the remaining premiums of $65 million handled by master marketers with indemnities of $221 million. The loss ratio for both delivery systems was estimated at 3.40.

Current estimates show premium for reinsurance operations at $373 million with indemnities of $1,026 million, and $62 million in premiums handled by Master Marketers with indemnities of $170.5 million. The combined efforts of the two delivery systems show total premium amounting to $435 million, and total indemnities of $1,196.3 million, for a combined loss ratio of 2.75, as of January 1989. We are hopeful that when the final numbers are in, the loss ratio will be less than 2.75.

CROP YEAR 1989 PROJECTIONS

Crop year 1989 may prove to be another challenging year for the Corporation. We have received preliminary estimates from a number of our sales officials that due to the 1988 drought, including disaster linkage, and more aggressive marketing, many more farmers are signing up this year for crop insurance. Program participation data will be closely monitored in Federal Crop Insurance and the Department to assure that program funding will be adequate.

ADDITIONAL COMMENTS

I would like to add some general comments to my statement at this time.

Since I have been Manager of the Federal Crop Insurance Corporation, I have initiated a number of management actions which I feel will address several problem areas in FCIC and should help alleviate some of the Committee's concerns over program integrity. I recently sent the Members of Congress a thorough report on the status of each of these, but would like to briefly state them for the record:

The initiatives include:

—Establishing and implementing a crop program development and change cycle. The crop program development and change cycle, and its monitoring system will provide FCIC with the tools and information needed to control and manage changes made within crop programs and to evaluate the tasks within the cycle for future improvements.

—Establishment of the program development and change cycle along with the enactment of a freeze on all but vital changes were instituted to control future changes and to create a more orderly operational environment. These steps will allow for more efficient allocation of resources, timely training programs for agents and less change for the insurance program to absorb.

—Adding another compliance office to be opened shortly in Minneapolis, Minnesota. This office will expand the number of compliance offices to five, which will allow us to more effectively monitor and evaluate contract compliance of both delivery systems.

—I have initiated several actions within the actuarial and underwriting area of the Corporation which should address some of the concerns about the actuarial soundness of the program. These include: development of actuarial procedures to identify and adjust coverages/rates for high risk individuals; development of a new rating methodology, including the identification of crops with high loss experience to be reviewed for possible rate and policy adjustments; and development of a single policy for use by the Federal and reinsured company delivery systems.

—A more efficient, top down management of our information resources has been introduced organizationally. The drought of 1988 put a severe strain on the Corporation's processing systems. While we did better than many expected in an extremely difficult situation, we are continuing to review this area for further ADP enhancements and systems changes that will improve information access and service to producers.

—In recognition of the importance of an aggressive marketing strategy to the effective expansion of crop insurance sales, FCIC has taken steps to develop a comprehensive strategic marketing plan. The plan, now in the final stages of development, will be issued shortly and will be made operational immediately thereafter.

—A major accounting firm study of the adequacy and appropriateness of reimbursement rates is being conducted and will be completed by April 1989. This study will establish how appropriate the commissions and reimbursement rates are to both delivery systems and reduce the conflict and criticism associated with this area.

—FCIC has taken effective action on education and promotion to increase participation by co-sponsoring a National In-service Training Workshop with the Cooperative Extension Service, held November 3-4, 1988. The workshop, entitled, "Risk Management Strategies Utilizing Multiple Peril Crop Insurance," was targeted for extension farm management personnel.

—In July 1988, a Management Planning Session was held in Kansas City, Missouri, attended by all top management officials of FCIC, to address the top priority issues facing the agency. Objectives and plans were collected and incorporated into a management plan for my use in tracking progress and accountability towards the completion of each identified objective.

—FCIC is working with the industry and the Commission to modify its present agreement with the reinsured companies to shift additional risk.

EXHIBITS

I would like to have two exhibits inserted in the record. The first exhibit is a table of the 1988 crop year experience, by commodity, showing premium and indemnities as of January 1989.

The second exhibit shows the loss ratios during the 41 years of our existence. The crop insurance program has had 18 years in which premiums have exceeded indemnities and 23 years in which the reverse has been true. The 41-year loss ratio is 1.45.

This concludes my statement. We will be glad to answer any questions or furnish any additional information you may desire.

[The exhibits follow:]

EXHIBIT I

ESTIMATED CROP INSURANCE EXPERIENCE - 1988
ALL PROGRAMS--As of January 1989
(Dollars in Thousands)

Crop Program	Amount of Premium			Amount of Indemnities			Loss Ratio		
	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total
Wheat	13,696	60,707	74,402	79,306	289,418	368,724	5.79	4.77	4.96
Cotton	2,557	42,275	44,832	2,768	29,794	32,562	1.08	0.70	0.73
Combined Crop	0	0	0	0	0	0	0.00	0.00	0.00
Tobacco	3,641	13,061	16,701	2,587	12,081	14,668	0.71	0.92	0.88
Corn	9,913	83,636	93,550	27,628	310,517	338,146	2.79	3.71	3.61
Flax	52	183	235	198	1,108	1,306	3.84	6.04	5.56
Bean	611	4,623	5,234	764	10,651	11,415	1.25	2.30	2.18
Citrus	531	2,419	2,950	144	714	858	0.27	0.30	0.29
Soybean	11,772	68,648	80,420	19,615	132,288	151,903	1.67	1.93	1.89
Barley	2,102	10,075	12,177	13,339	60,436	73,775	6.35	6.00	6.06
Peach	648	887	1,534	2,209	2,035	4,244	3.41	2.29	2.77
Grain Sorghum	859	6,691	7,550	1,415	9,748	11,163	1.65	1.46	1.48
Oat	335	1,379	1,713	2,210	9,966	12,176	6.61	7.23	7.11
Rice	346	2,519	2,865	568	6,357	6,925	1.64	2.52	2.42
Raisin	204	9,818	10,022	0	0	0	0.00	0.00	0.00
Pea	166	1,461	1,627	219	1,399	1,618	1.32	0.96	0.99
Peanut	4,302	18,690	22,992	6,847	30,536	37,383	1.59	1.63	1.63
Potato	705	5,738	6,443	1,677	18,441	20,118	2.38	3.21	3.12
Apple	1,370	4,403	5,773	2,649	11,889	14,538	1.93	2.70	2.52
Tomato	172	3,541	3,713	254	2,585	2,839	1.48	0.73	0.76
Safflower	25	57	83	137	299	435	5.37	5.23	5.27
Sugar Beet	831	5,349	6,180	1,876	11,659	13,535	2.26	2.18	2.19
Grape	260	2,125	2,385	24	446	470	0.09	0.21	0.20
Sugarcane	15	398	413	0	0	0	0.00	0.00	0.00
P. Rico Reins.	0	1,342	1,342	0	3,500	3,500	0.00	2.61	2.61
Sunflower	449	3,405	3,854	610	9,374	9,984	1.36	2.75	2.59
Forage Seed.	0	3	3	2	0	2	3.28	0.00	0.45
Sweet Corn	113	1,014	1,127	89	594	683	0.79	0.59	0.61
Forage Prod.	5	28	33	0	117	117	0.00	4.16	3.56
Rye	3	15	18	11	71	82	3.99	4.69	4.58
Almond	789	5,182	5,971	702	6,335	7,037	0.89	1.22	1.18
Prev. Planting	0	0	0	0	0	0	0.00	0.00	0.00
Hybrid Seed	808	6,493	7,301	621	47,879	48,500	0.77	7.37	6.64
Citrus Tree	13	1,923	1,936	0	0	0	0.00	0.00	0.00
Table Grape	17	563	580	0	362	362	0.00	0.64	0.62
Pepper	458	266	723	252	256	509	0.55	0.97	0.70
Popcorn	49	403	452	39	1,121	1,159	0.79	2.78	2.57
Fresh Tomato	3,628	858	4,486	1,175	97	1,272	0.32	0.11	0.28
Walnut	33	72	106	2	15	17	0.05	0.21	0.16
Cranberry	44	578	622	0	305	305	0.00	0.53	0.49
Nursery Stock	0	134	134	0	96	96	0.00	0.72	0.72
Cotton, ELS	25	55	80	0	0	0	0.00	0.00	0.00
Sw Corn, Fresh	50	408	458	52	573	625	1.03	1.41	1.36
Peach, Canning	0	0	0	0	0	0	0.00	0.00	0.00
Prune	193	585	778	57	1,230	1,287	0.30	2.10	1.65
Prev Planting End	0	0	0	0	0	0	0.00	0.00	0.00
Bean, Cann/Proc	33	113	146	143	281	423	4.34	2.48	2.90
Fig	0	159	159	0	133	133	0.00	0.84	0.84
Macadamia Nut	0	37	37	0	0	0	0.00	0.00	0.00
Macadamia Tree	0	164	164	0	0	0	0.00	0.00	0.00
Onion	149	141	290	298	383	682	2.00	2.71	2.35
Stonefruit	30	376	405	12	659	671	0.41	1.75	1.66
ALL PROGRAMS	62,000	373,000	435,000	170,500	1,025,750	1,196,250	2.75	2.75	2.75

FEDERAL CROP INSURANCE CORPORATION
REINSURANCE OPERATIONS

Exhibit II (A)

PROGRAM	LOSS RATIOS - 1981 TO 1988 CROP YEAR								
	1981	1982	1983	1984	1985	1986	1987	1/ 1988	1981-88
Wheat	0.79	0.74	0.64	1.64	2.27	1.77	1.02	4.77	2.18
Cotton	1.36	2.39	1.82	1.79	0.57	2.87	0.48	0.70	1.26
Combined Crop	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tobacco	1.60	0.77	2.24	0.52	0.62	1.65	1.62	0.93	1.16
Corn	0.38	0.53	2.59	0.87	0.61	0.81	0.59	3.71	1.35
Flax	0.00	1.29	1.03	0.84	1.12	1.31	0.87	6.04	1.66
Bean	0.11	3.05	1.45	1.07	2.19	1.36	1.74	2.30	1.84
Citrus	0.00	0.32	0.00	4.02	4.50	0.77	0.12	0.30	1.15
Soybean	0.68	1.16	1.94	1.97	1.79	2.08	1.32	1.93	1.78
Barley	0.72	0.46	0.78	2.30	4.57	1.91	1.29	6.00	3.11
Peach	0.00	2.28	3.28	0.62	3.01	1.98	2.37	2.29	2.24
Grain Sorghum	0.97	0.97	1.70	2.45	1.59	1.85	1.05	1.46	1.68
Oat	1.86	0.54	0.70	1.41	1.32	1.83	1.37	7.23	2.82
Rice	0.00	1.54	3.71	1.61	2.93	3.05	2.78	2.52	2.64
Raisin	0.00	0.00	1.23	0.53	0.16	0.06	0.00	0.00	0.45
Pea	0.00	0.32	0.95	0.72	1.09	0.84	0.60	0.96	0.86
Peanut	0.00	0.87	3.32	0.80	0.91	2.90	2.17	1.63	1.85
Potato	0.00	0.95	2.59	2.10	3.40	3.65	2.15	3.21	2.87
Apple	0.00	2.25	0.22	2.72	2.41	2.68	0.93	2.70	2.13
Cherry	*	*	*	*	*	*	*	*	0.00
Tomato	0.00	0.16	1.44	1.01	0.61	0.50	0.25	0.73	0.69
Safflower	*	*	*	*	*	*	*	*	0.00
Sugar Beet	2.02	0.19	0.80	0.86	1.07	1.24	0.64	2.18	1.35
Tung Nut	*	*	*	*	*	*	*	*	0.00
Grape	0.00	0.00	2.61	1.01	0.75	0.70	0.38	0.21	1.19
Sugar Cane	0.00	0.00	7.53	2.99	0.94	0.19	0.21	0.00	1.49
P. Rico Reins.	*	*	0.37	2.70	0.00	0.08	0.00	2.61	1.17
Sunflower	1.02	1.38	1.03	1.56	3.60	1.51	0.58	2.75	1.96
Forage Seed.	0.00	3.01	0.00	1.00	1.50	2.50	1.00	0.00	1.19
Sweet Corn	0.00	1.23	1.98	0.49	0.73	0.48	0.42	0.59	0.58
Forage Prod.	0.00	2.00	0.00	2.17	4.50	0.00	0.00	4.16	3.67
Rye	0.00	1.00	0.10	0.47	0.44	0.56	0.73	4.69	1.33
Almond	0.00	0.00	3.65	0.01	1.11	5.77	0.13	1.22	1.44
Prev. Planting	*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid Seed			15.66	3.27	0.66	0.65	0.90	7.37	2.41
Citrus Tree			0.00	21.74	0.78	0.09	0.00	0.00	1.53
Table Grape				3.27	1.50	0.89	0.31	0.64	1.65
Pepper				1.62	4.28	1.07	0.27	0.97	1.35
Popcorn				3.35	2.09	2.14	0.62	2.78	2.16
Fresh Tomato				3.74	6.21	0.68	0.54	0.11	1.27
Walnut				0.92	0.01	3.14	0.18	0.21	0.94
Cranberry				0.53	0.19	1.37	0.76	0.53	0.74
Nursery Stock				0.00	0.00	0.00	0.04	0.72	0.11
Cotton, ELS				0.00	0.00	0.00	2.22	0.00	0.25
Sw Corn, Fresh					2.89	1.65	1.40	1.41	1.60
Peach, Canning						1.01	0.09	0.00	0.72
Prune						8.56	0.18	2.10	2.94
Prev. Plant. End						19.71	0.00	0.00	18.07
Bean, Cann/Proc								2.48	2.48
Fig								0.84	0.84
Macadamia Nut								0.00	0.00
Macadamia Tree								0.00	0.00
Onion								2.71	2.71
Stonefruit								1.75	1.75
ALL PROGRAMS	0.73	0.89	1.70	1.48	1.47	1.63	0.98	2.75	1.67

Note: No Reinsurance Program prior to 1981.
* No Program.
1/ The crop year 1988 ratios are based on estimates as of January 1989.

FEDERAL CROP INSURANCE CORPORATION
GOVERNMENT OPERATIONS

Exhibit II (B)

PROGRAM	LOSS RATIOS - 1948 TO 1988 CROP YEAR										
	1948-80	1981	1982	1983	1984	1985	1986	1987	1/ 1988	1981-88	1948-88
Wheat	1.05	0.97	0.92	1.02	1.56	2.91	1.51	1.07	5.79	1.49	1.22
Cotton	1.57	1.10	1.80	1.66	0.94	0.48	2.01	0.57	1.08	1.38	1.50
Combined Crop	1.18	0.17	0.32	0.62	0.10	0.60	1.16	1.12	0.00	0.41	1.12
Tobacco	1.04	0.89	1.05	3.23	0.49	0.56	1.87	1.27	0.71	1.30	1.14
Corn	1.08	0.59	0.52	2.83	0.94	0.65	0.91	0.59	2.79	0.93	1.01
Flax	0.89	0.90	1.19	0.80	0.79	1.19	1.35	1.09	3.84	1.10	0.91
Bean	0.92	1.01	2.96	1.18	1.44	1.89	1.08	2.51	1.25	1.77	1.39
Citrus	1.40	2.23	0.05	0.00	2.40	2.78	0.15	0.19	0.27	1.50	1.42
Soybean	0.89	1.82	2.12	2.59	1.80	1.56	1.87	1.28	1.67	1.99	1.72
Barley	0.95	0.82	0.68	0.89	1.91	3.93	1.80	1.04	6.35	1.81	1.43
Peach	1.25	0.35	4.16	2.75	1.22	2.28	3.15	1.93	3.41	2.39	1.68
Grain Sorghum	1.05	0.93	1.23	2.31	2.61	1.96	2.05	1.28	1.65	1.55	1.34
Oat	0.84	1.39	0.61	0.80	1.08	1.72	1.53	1.23	6.61	1.39	1.06
Rice	1.47	1.86	3.38	4.09	1.47	2.03	1.49	1.66	1.64	2.73	2.36
Raisin	1.01	0.00	6.28	0.91	0.14	0.04	0.00	0.00	0.00	2.34	1.81
Pea	1.27	0.68	0.73	0.94	1.12	0.59	0.40	0.37	1.32	0.77	1.14
Peanut	1.35	0.62	0.79	2.93	0.86	1.09	2.53	2.60	1.59	1.43	1.41
Potato	2.06	1.36	2.07	2.83	3.40	1.80	1.56	4.64	2.38	2.55	2.46
Apple	1.27	1.54	1.55	1.76	1.05	3.12	2.17	0.75	1.93	1.71	1.50
Cherry	2.61	*	*	*	*	*	*	*	*	2.61	2.61
Tomato	0.75	0.40	2.62	1.11	2.17	1.50	0.94	1.58	1.48	1.68	1.44
Safflower	1.15	*	*	*	*	*	*	*	*	1.15	1.15
Sugar Beet	0.77	0.59	0.52	0.75	0.68	0.97	0.54	0.38	2.26	0.77	0.77
Tung Nut	0.74	*	*	*	*	*	*	*	*	0.74	0.74
Grepe	0.99	0.85	2.28	2.46	0.58	1.02	0.90	0.45	0.09	1.68	1.47
Sugar Cane	0.86	1.22	0.80	4.36	0.26	0.11	0.00	0.00	0.00	1.96	1.42
P. Rico Reins.	0.15	*	*	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.15
Sunflower	1.03	0.70	1.43	1.11	1.55	4.31	1.83	0.41	1.36	1.37	1.27
Forage Seed.	4.88	4.38	2.67	1.20	2.00	1.45	0.69	0.63	3.28	2.76	3.40
Sweet Corn	0.59	1.12	0.43	1.18	0.42	1.38	0.61	1.05	0.79	0.83	0.80
Forage Prod.	2.00	3.15	2.12	2.71	0.00	0.37	0.00	0.00	0.00	2.00	2.00
Rye	1.00	0.00	0.23	0.59	0.30	1.51	0.94	0.82	3.99	0.66	0.66
Almond		0.02	0.75	3.11	0.00	0.44	5.17	0.18	0.89	1.15	1.15
Prev. Planting			5.62	1.31	0.40	1.97	8.85	0.00	0.00	5.67	5.67
Hybrid Seed				12.03	2.38	0.81	1.43	2.17	0.77	1.83	1.83
Citrus Tree				0.00	22.91	0.00	0.00	0.00	0.00	9.39	9.39
Table Grape					1.21	0.84	0.56	1.20	0.00	0.95	0.95
Pepper					1.17	2.81	2.15	0.15	0.55	1.15	1.15
Popcorn					3.03	2.01	0.90	0.29	0.79	1.83	1.83
Fresh Tomato					7.07	5.76	1.64	0.58	0.32	1.65	1.65
Walnut					0.04	0.49	1.42	0.00	0.05	0.25	0.25
Cranberry					0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nursery Stock					0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cotton, ELS					0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sw Corn, Fresh						0.20	0.00	0.79	1.03	0.77	0.77
Peach, Canning							0.46	0.00	0.00	0.42	0.42
Prune							3.54	0.15	0.30	1.14	1.14
Prev. Plant. End							0.72	0.00	0.00	0.72	0.72
Bean, Cann/Proc									4.34	4.34	4.34
Fig									0.00	0.00	0.00
Macadamia Nut									0.00	0.00	0.00
Macadamia Tree									0.00	0.00	0.00
Onion									2.00	2.00	0.00
Stonefruit									0.41	0.41	0.00
ALL PROGRAMS	1.10	1.09	1.43	2.20	1.46	1.78	1.57	1.12	2.75	1.53	1.31

* No Program.

1/ The crop year 1988 ratios are based on estimates as of January 1989.

FEDERAL CROP INSURANCE CORPORATION
COMBINED OPERATIONS

Exhibit II (C)

PROGRAM	LOSS RATIOS - 1948 TO 1988 CROP YEAR										
	1948-80	1981	1982	1983	1984	1985	1986	1987	1988 1/	1981-88	1948-88
Wheat	1.05	0.97	0.88	0.88	1.60	2.47	1.70	1.03	4.96	1.84	1.49
Cotton	1.57	1.11	1.88	1.71	1.64	0.55	2.80	0.48	0.73	1.30	1.39
Combined Crop	1.18	0.17	0.32	0.62	0.10	0.60	1.16	1.12	0.00	0.41	1.12
Tobacco	1.04	0.89	0.99	2.95	0.50	0.59	1.73	1.52	0.88	1.24	1.14
Corn	1.08	0.58	0.52	2.72	0.89	0.62	0.83	0.59	3.61	1.20	1.16
Flax	0.89	0.89	1.22	0.88	0.81	1.15	1.32	0.92	5.52	1.36	0.97
Bean	0.92	1.01	2.99	1.34	1.17	2.13	1.31	1.85	2.18	1.82	1.62
Citrus	1.40	2.23	0.08	0.00	2.71	3.39	0.56	0.14	0.29	1.37	1.39
Soybean	0.89	1.80	2.01	2.47	1.89	1.73	2.04	1.32	1.89	1.89	1.74
Barley	0.95	0.82	0.63	0.85	2.12	4.38	1.88	1.24	6.06	2.57	2.18
Peach	1.25	0.35	3.58	3.01	0.90	2.70	2.41	2.18	2.77	2.31	1.85
Grain Sorghum	1.05	0.93	1.15	1.99	2.50	1.68	1.88	1.08	1.48	1.63	1.51
Oat	0.84	1.42	0.59	0.76	1.24	1.48	1.73	1.34	7.11	1.99	1.44
Rice	1.47	1.86	3.35	4.07	1.54	2.69	2.79	2.69	2.42	2.69	2.46
Raisin	1.01	0.00	6.28	1.16	0.48	0.15	0.06	0.00	0.00	0.88	0.90
Pea	1.27	0.68	0.69	0.94	0.91	0.93	0.74	0.56	0.99	0.82	1.06
Peanut	1.35	0.62	0.80	3.03	0.83	0.97	2.81	2.27	1.63	1.65	1.60
Potato	2.06	1.36	1.29	2.74	2.73	2.68	3.06	2.43	3.12	2.79	2.75
Apple	1.27	1.54	1.64	1.50	1.63	2.73	2.53	0.88	2.52	1.98	1.80
Cherry	2.61	*	*	*	*	*	*	*	*	2.61	2.61
Tomato	0.75	0.40	2.56	1.39	1.05	0.64	0.52	0.31	0.76	0.7[illegible]	0.79
Safflower	1.15	*	*	*	*	*	*	*	*	1.15	1.15
Sugar Beet	0.77	0.75	0.41	0.77	0.79	1.03	1.06	0.60	2.19	1.14	1.02
Tung Nut	0.74	*	*	*	*	*	*	*	*	0.74	0.74
Grape	0.99	0.85	2.28	2.57	0.95	0.79	0.73	0.39	0.20	1.34	1.30
Sugar Cane	0.86	1.22	0.80	4.93	2.24	0.85	0.19	0.20	0.00	1.73	1.45
P. Rico Reins.	0.00	*	*	0.37	2.70	0.00	0.08	0.00	0.00	1.17	1.17
Sunflower	1.03	0.72	1.42	1.08	1.55	3.80	1.57	0.55	2.59	1.67	1.56
Forage Seed.	4.88	4.38	2.70	0.99	1.67	1.48	1.65	0.89	0.45	2.29	2.89
Sweet Corn	0.59	1.12	0.51	1.39	0.45	0.86	0.51	0.50	0.61	0.63	0.63
Forage Prod.	2.00	3.15	2.12	2.86	1.30	2.97	0.00	0.00	3.56	2.64	2.49
Rye	1.00	0.00	0.47	0.40	0.37	0.97	0.68	0.75	4.58	1.00	1.00
Almond		0.02	0.75	3.43	0.01	1.04	5.68	0.14	1.18	1.37	1.37
Prev. Planting			5.62	1.31	0.40	1.97	8.85	0.00	0.00	5.67	5.67
Hybrid Seed				13.21	3.04	0.68	0.71	0.95	6.64	2.35	2.35
Citrus Tree				0.00	22.50	0.77	0.09	0.00	0.00	3.36	3.36
Table Grape					3.08	1.47	0.87	0.36	0.62	1.60	1.60
Pepper					1.38	3.72	1.49	0.21	0.70	1.25	1.25
Popcorn					3.26	2.08	1.97	0.59	2.57	2.11	2.11
Fresh Tomato					6.12	5.90	1.30	0.57	0.28	1.53	1.53
Walnut					0.78	0.06	2.96	0.15	0.16	0.82	0.82
Cranberry					0.53	0.19	1.37	0.76	0.49	0.73	0.73
Nursery Stock					0.00	0.00	0.00	0.04	0.72	0.11	0.11
Cotton, ELS					0.00	0.00	0.00	1.32	0.00	0.18	0.18
Sw Corn, Fresh						2.72	1.60	1.36	1.36	1.54	1.54
Peach, Canning							0.93	0.09	0.00	0.69	0.69
Prune							6.98	0.17	1.65	2.43	2.94
Prev. Plant. End							17.[illegible]8	0.00	0.00	16.36	16.36
Bean, Cann/Proc									2.90	2.90	2.90
Fig									0.84	0.84	0.84
Macadamia Nut									0.00	0.00	0.00
Macadamia Tree									0.00	0.00	0.00
Onion									2.35	2.35	2.35
Stonefruit									1.66	1.66	1.66
ALL PROGRAMS	1.10	1.08	1.32	2.02	1.47	1.55	1.62	1.01	2.75	1.61	1.45

* No Program.

1/ The crop year 1988 ratios are based on estimates as of January 1989.

STATEMENT OF JACK VAN MARK

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you to discuss the Rural Electrification Administration's 1990 budget and program proposals. I have a brief statement and then I will be happy to answer your questions.

REA was originally established 54 years ago to provide loan funds to eligible borrowers for the purpose of extending electric service to unserved rural areas. Later, the agency was authorized to make loans for the purpose of furnishing rural telephone service. The REA program has been very successful in meeting these objectives. This success is readily measured in the large number of farms that now have electric and telephone service. According to our latest statistics, 99 percent of farms in this country have electricity and 96 percent have telephone service. Through REA direct loans, Rural Telephone Bank loans, and loan guarantee commitments, approximately $60.5 billion has been made available to qualified borrowers in rural areas.

Many rural electric and telephone utilities that receive REA financing have developed into major business organizations in their communities. In the past several years, electric distribution borrowers have made strong financial progress. The composite times interest earned ratio, an indicator of financial health, increased from 2.16 in 1980 to 2.37 in 1987. Net margins for distribution borrowers were $806 million in 1987. Compared with net margins of $355 million reported in 1980, this represents an increase of 127 percent. Similarly, there has been significant improvement in the composite net worth of distribution borrowers which was reported at $3.7 billion in 1980 and $7.8 billion in 1987. The measure of net worth to total assets shows that distribution borrowers increased their equity by 7 percent during this period. Today, an increasing number of REA's rural electric borrowers are investigating the possibility of consolidating with other systems. Management is recognizing that efficiencies can be achieved through consolidation which also enhances the borrowers' financial position.

Telephone borrowers continue to enjoy financial success and sound management. Toll service revenues continue to increase. Net margins of telephone borrowers in 1987 were $598 million, a 177 percent increase over margins of $216 million reported in 1980. Net income per subscriber increased from $50.76 in 1980 to $119.43 in 1987. The net worth of telephone borrowers represented 25 percent of total assets in 1980. By December 31, 1987, their net worth had risen to 33 percent. Most of REA's telephone organizations have developed their financial strength to the point where they are able to satisfy their credit needs through private financing.

Rural electric and telephone systems have grown because of low-interest loans and management and technical assistance furnished by REA. Insured electric and telephone loans made from the Rural Electrification and Telephone Revolving Fund at 5 percent interest are subsidized by the American taxpayer at a time when REA borrowers are enjoying improved financial strength.

The 1987 Reconciliation Act made many changes to the Rural Telephone Bank (RTB), a source of supplemental financing for rural telephone systems. New criteria for loan eligibility requires that an applicant be capable of repaying an RTB loan at the average rate or yield of outstanding Treasury obligations of comparable maturity, although the borrower will actually repay the loan at a much lower rate. The requirement to use the Treasury rate for qualifying borrowers has the effect of shifting borrowers from RTB to the revolving fund.

Another provision of the Reconciliation Act requires that borrower interest rates be determined according to a detailed formula which sets low-cost interest rates on RTB loans. As a result of this formula, the interest rate for fiscal year 1988 was 5 percent which is the same as the revolving fund. RTB borrowers will repay fiscal year 1988 advances at 5 percent interest even though the borrowers demonstrated the ability to repay their loans at approximately 9 percent.

In order to maintain the financial well-being of the Rural Telephone Bank and to allow for the conversion of ownership as provided by Section 410 of the RE Act, as amended, we are proposing the repeal of these provisions pertaining to the Bank.

Borrowers are in a financial position to meet their credit needs privately. Federal financing to rural utility systems should not be continued at the same levels while the Administration and the Congress are searching for ways to control the budget and reduce the deficit. Private lenders have expressed interest in extending credit to REA borrowers. This initiative will encourage private capital sources to participate in the REA program.

FISCAL YEAR 1990 BUDGET PROPOSAL

Loan Programs

The proposed budget provides for partial guarantees of private sector loans to REA borrowers. For the electric program, the proposal includes $1.265 billion in partial guarantees of private-sector loans. Electric distribution loans are proposed at variable guaranteed rates for $1 billion. The level of guarantee will be determined by established criteria which will consider financial need. Power supply borrowers will receive a 90 percent guarantee of $265 million. No funds are requested for direct electric or telephone loans.

For the telephone program, the proposed budget includes $100 million in privately financed loans with a 70 percent guarantee. In addition, we are requesting a loan authorization of $125 million for the Rural Telephone Bank. In recent years, demand for telephone loan funds has steadily decreased. The $225 million requested in the budget will continue to meet the anticipated needs of the telephone program.

This proposal will reduce unnecessary program costs while still providing needed support to program recipients and at the same time expanding the availability of private financing. The shift from a direct loan program to a partially guaranteed private-sector loan program will insure that the capital needs of rural electric and telephone systems will continue to be met.

Rural Economic Development Subaccount

No appropriation is being requested for the Rural Economic Development Subaccount. The earnings generated from cushion of credit payments by REA borrowers will provide the funds to continue this program. These earnings are estimated at $600,000 in fiscal year 1989 and $750,000 for fiscal year 1990.

Reimbursement to the Revolving Fund

We are not requesting a reimbursement to the revolving fund. The budget proposal includes the reforms necessary to stabilize the fund's operations and allow it to begin repayment of the original $7.9 billion obligation in 1993.

Purchase of Rural Telephone Bank Stock

The budget proposal does not include funds for additional capitalization of the Rural Telephone Bank. The Government's purchase of Class A Stock in 1989 increased total capital holdings to $535 million. RTB borrowers compare favorably with other telephone companies, and they should not continue to be subsidized with capital at a cost of 2 percent.

Salaries and Expenses

REA is requesting an appropriation of $30,862,000 for Salaries and Expenses. Included in the request is $654,000 for office computers that will enable REA to further automate loan processing and provide more timely management information. This is the second year of a four-year program to provide additional computers to REA. The budget request for Salaries and Expenses includes the funds necessary to operate the Office of the Administrator.

The budget request provides for 531 staff years. This level reflects a reduction of 19 staff years as the loan programs move from direct Federal credit to a partially guaranteed private-sector program. The staff necessary to administer the existing and proposed loan programs of the agency is provided within this total.

Proposed Legislation

Legislative reforms will be requested to implement the proposed budget. This proposal will reduce REA's financial role and place more reliance on the private sector. Direct loans and 100 percent guaranteed FFB loans will be replaced with partial guarantees of private-sector loans.

An origination fee of 1 percent will be charged on loan guarantee commitments in 1990. Revenues generated by the fee will be deposited into the REA revolving fund and used to offset future defaults. The fee will assist the revolving fund to meet any unforeseen shortfalls. The resources of the fund must be protected against potential losses to enable it to meet obligations on the original $7.9 billion debt when due.

Prepayments

The budget requests authority to extend the provision that will allow FFB borrowers to prepay their loans with the prepayment premium waived. Refinanced FFB loans would carry an 80 percent guarantee. To date, prepayments of $2.6 billion have been received, and an additional $500 million in premium-free prepayments are anticipated in fiscal year 1989.

During fiscal year 1988, 109 RTB borrowers also prepaid $131 million. The authority to prepay RTB loans without premium expired on September 30, 1988. For fiscal year 1990, the budget request includes $75 million in Telephone Bank prepayments and a reinstatement of the prepayment program. Borrowers electing premium-free prepayment of FFB and RTB loans will not be eligible to return to REA or the RTB for further financial assistance.

Rural Telephone Bank

The budget request proposes to change the method used to determine borrower interest rates on Bank loans. Other amendments to provisions of the Omnibus Budget Reconciliation Act of 1987 will rescind the interest rate criteria used in determining borrowers' eligibility and remove the prohibition on the Bank from establishing certain reserves.

Summary

In conclusion, Mr. Chairman, the REA program has been a successful program leading the way in rural electrification and telecommunication. The time has come to recognize this progress and reduce the cost of this program to the taxpayer. The 1990 budget proposal has many of the recommendations and reforms introduced in the 1989 budget request. Changes proposed in this program will play a part in reducing the Nation's deficit which I know is a concern to all Americans. These proposed reforms are worthy of consideration because of the budgetary savings they would produce, while providing REA borrowers with a source of loan funds backed by Government guarantees.

This concludes my formal statement. I will be happy to respond to your questions.

[CLERK'S NOTE: The report "A Brief History of the Rural Electric and Telephone Programs" is available in the subcommittee file.]

STATEMENT OF ROLAND VAUTOUR

Senator BURDICK. Mr. Vautour.

Mr. VAUTOUR. Thank you, Mr. Chairman and members of the committee.

Senator BURDICK. Did I pronounce it correctly?

Mr. VAUTOUR. Yes; you pronounced it right. You did, indeed.

We appreciate this opportunity to be with you today to discuss the 1990 budget for the Small Community and Rural Development programs of the Department of Agriculture.

This budget represents the administration's commitment to keep America growing, while recognizing the special needs of some segments of rural America.

In particular, it recognizes the compelling need of a vital national agricultural sector working in harmony and in prosperity with its neighbors to provide the services they all must have to succeed in life.

It also recognizes that we can make a considerable contribution to the well-being of many rural communities if we assist in the improvement of their basic services and ultimately to the diversification of their income sources.

As the President said recently of the Nation: "We are headed the right way."

We think that this is true of our programs as well. I will review briefly what our budget includes for each of our agencies: the Farmers Home Administration, the Rural Electrification Administration, and the Federal Crop Insurance Corporation.

The Farmers Home Administration ended the 1988 fiscal year with an outstanding loan portfolio of about 1.6 million loans, both direct and guaranteed, totaling about $62 billion in farm, rural housing, and community programs. That was about $2 billion less than the previous year, and represented the write-off of uncollectible loans, the repurchase of loans by some communities, and payments on outstanding loans.

The 1990 fiscal year budget continues the direction and progress of the last administration in several ways:

It maintains the momentum in the transition of farm loans from direct to guaranteed loans. The 1990 budget includes $3.4 billion for farm operating loans, of which $2.8 billion would be for guaranteed loans. To encourage private lenders' participation in making guaranteed loans, Farmers Home will be implementing provisions of the Agricultural Credit Act of 1987, relating to the establishment of a secondary market for such loans.

It extends guaranteed lending to community program borrowers. Guaranteed loans of $50 million would be available for water and sewer loans, and $50 million would be available for community facility loans, and these amounts would be in addition to the $200 million in direct loans and $75 million in grants for water and sewer projects. The business and industry program, which is already on a guaranteed loan basis, would be continued at a level of $96 million.

It establishes a $360 million voucher program for rural housing as a cost-effective way of providing assistance to low-income families, while allowing them greater mobility and choice of housing.

It proposes additional asset sales—one way to reduce Government indebtedness, and, in some cases, save borrowers thousands of dollars.

It provides for the reimbursement of losses, including interest rate subsidies, on the existing loan portfolio, available for water and sewer loans.

And it reflects a substantial amount of assistance to existing borrowers through loan restructuring and other service actions, as well as assistance to new borrowers through credit sales of inventory properties, farms in particular, and loan assumptions.

The 1990 budget for the Rural Electrification Administration also continues the direction of the last administration.

For more than one-half century, REA has played an important role in improving the quality of life in rural areas by providing loans to its borrowers for the purpose of extending electric and telephone service to remote parts of this country. The program has been very successful.

Today, many REA borrowers can easily finance projects with private capital. The economic well-being of these organizations demonstrates the success of the REA Program, but it also suggests it is appropriate to evaluate current needs in light of current budget constraints.

REA borrowers are currently generating resources from within their own organizations, and we should build on that base. REA borrowers can, and do, secure supplemental financing from the National Rural Utilities Cooperative Finance Corporation, an organization formed by the cooperatives.

Long-term financing is also readily available from other organizations, such as the Banks for Cooperatives, currently known as the Co-Bank. More importantly, the strong, steady growth of these utilities, which has been made possible through subsidized loans, has made them financially capable of entering the private-money markets, similar to investor-owned utilities.

The 1990 budget would reduce Federal subsidies of the REA programs by placing reliance on private-sector loans that would be partially guaranteed by REA.

For the electric program, the proposal includes $1.265 billion; for the telephone program, $100 million, in partial guarantees of private-sector loans. Direct lending, which is subsidized by the taxpayer and is very costly, would be terminated at the end of fiscal year 1989 for both electric and telephone programs. For the telephone program, supplemental financing of $125 million would continue to be available from the Rural Telephone Bank. REA would continue to provide management and technical assistance to the borrowers.

The budget includes $575 million in prepayments and further encourages borrowers with outstanding loans from the Rural Telephone Bank and those with REA guaranteed loans from the Federal Financing Bank to prepay without premium. All borrowers using this opportunity would have to agree not to seek further REA financial assistance. This would remove any REA-imposed restraints that might limit their business options.

For the Federal Crop Insurance Corporation, the 1990 budget reflects increased rates of participation and an improvement in the loss-to-expenses ratio. It includes $226 million for administrative and operating expenses and $134 million for premium subsidy.

As you know, Federal Crop Insurance is a wholly owned Government corporation that has been providing farmers with multiple-peril crop insurance since 1938. The stated purpose of the corporation is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. The authorizing legislation was amended in 1980 to provide for the present program, and constitutes a joint effort by the private sector and the government in delivery of the program.

The 1980 amendment urged the use of the private sector to the maximum extent practicable and virtually all sales and service are now accomplished through a unique public-private partnership, a nationwide expansion.

In some cases, this partnership involves private-sector sales, combined with Federal underwriting and claims service. In others, we use the reinsurance process to involve risk-bearing insurance companies in direct sales and service.

In view of the repeated and continuing emphasis on crop insurance as the Federal Government's agriculture catastrophic risk management program, I want to assure the committee and the Congress that the Department of Agriculture will utilize the resources of all of our agencies to assure that producers are aware of the program and have the opportunity to utilize it.

Additionally, we will continue to make improvements and initiate new actions designed to address the actuarial soundness of the product, consistent with accepted insurance principles, good business sense, and public policy in the context of the Department's overall farm program.

In summary, I would emphasize that the Federal budget deficit continues and is a concern to all of us. Each of us has a responsibility to look for ways to reduce Government spending.

It is through the annual budget appropriation process that we have the opportunity to discuss these ideas with you. These proposals would produce outlay savings and reduce program costs in 1990. The savings would continue to grow in future years, while meeting the needs of our farmers and rural communities.

Mr. Chairman, this concludes my statement.

I am accompanied today by the Acting Administration of the Farmers Home Administration, Mr. Neal Sox Johnson; the Acting Administrator of the Rural Electrification Administration, Mr. Jack Van Mark; and the Manager of Federal Crop Insurance Corporation, John Marshall.

We will be happy to answer any questions that you or the committee may have.

Thank you.

REFINANCING REGULATIONS

Senator Burdick. Thank you, Secretary Vautour.

The 1989 Agricultural Appropriations Act requires you to issue regulations within 30 days on the prepayment of $500 million in REA loans.

Here we are, 193 days later, and still the regulations have not been issued.

I understand that you are having a dispute with Treasury over what those regulations should say. Have you spoken with Assistant Secretary Mullins at Treasury about this issue?

Mr. Vautour. Mr. Chairman, no, I have not. The issue is before the Office of Legal Counsel at the Department of Justice, and we have been in touch with them within the last several days. We have received some assurance from them that, hopefully, a resolution to this problem will be forthcoming within a week.

Senator Burdick. I also understand that the dispute lies over the operative language in the RE Act, which states that the loans may be prepaid without penalty if private capital, with the existing loan guarantee, is used to replace the loan.

This language has been in operation since the first prepayments were allowed.

Under the former regulation, was there a requirement that loans had to be prepaid with other loan funds, rather than with cash on hand?

Mr. Vautour. The Rural Electrification Administration has taken the position that the borrowers should be permitted, if they so choose, to prepay these loans out of their own generated funds, or funds from any other source, other than additional borrowing or additional guarantees from the Rural Electrification Administration.

That, basically, is the basis for the dispute.

Hopefully we will have a resolution to that within a week.

Senator Burdick. Under existing and former regulations, isn't it a fact that there is no requirement that loan funds had to be used before other funds could be issued?

Mr. Vautour. Mr. Chairman, may I ask Mr. Van Mark to address that issue?

Mr. Van Mark. Senator, would you repeat the question, please?

Senator Burdick. I understand that there was no requirement that loans had to be prepaid with other loan funds rather than cash on hand.

Mr. Van Mark. To make sure that I understand the question correctly, let me address it this way.

Previously, there was no provision for borrowers to pay from their general funds. They borrowed the money and our guarantee was assigned to the new lender when their FFB debt was paid.

Under the new regulations, we are going to allow borrowers to pay from their general funds without having a guarantee assigned to anybody. In fact, the guarantee would be eliminated.

Does that address your question?

Senator Burdick. The question is, as counsel informs me, was there a requirement, was there a prohibition on the use of cash under the former regulation?

Mr. Van Mark. The previous regulation did not address this issue.

As a result of the legislative history and the colloquy on the floor during the last session, we developed a sense of congressional intent; and that is the reason we have included this provision in the new regulations.

RURAL DEVELOPMENT LOAN FUND

Senator Burdick. Congress has provided $14 million per year for the last 2 years in loan authority for rural development loan funds.

I understand that, while many applications for this money have been approved, few loans have been closed.

Is this true?

If so, what steps are you taking to speed up the process?

Mr. Vautour. I would ask Mr. Johnson, the Acting Administrator of Farmers Home, to respond.

Mr. Johnson. I believe we are referring to the Rural Relending Program. Is that the $14 million that we are making reference to?

Yes; $10 million of the $14 million authority has been obligated now. To date, only two loans have been closed; one in Georgia and one in Oklahoma. Those were from fiscal year 1988 funding.

[Pause.]

Mr. Johnson. For the 9 loans obligated in fiscal year 1988 and for the 10 loans obligated in fiscal year 1989, it is a matter of actually getting the arrangements finalized and closing on them.

Senator Burdick. Why are you taking so long to close the loans if they have been obligated?

Mr. Johnson. Well, much of that would be in the hands of the intermediary. FmHA is working closely with the intermediaries to complete all remaining items and close the loans as soon as possible. Some of them may involve construction, legal matters, zoning, all of those, before they could actually be completed.

Senator Burdick. Well, certainly the application would not be approved if there were any legal impediments or problems, would they?

Mr. Johnson. We make the loans to the intermediaries to relend. Once they come in to us, they have some ultimate recipients that they are interested in and plan on utilizing these funds for.

We approve the application based on the intermediary's intent with very sketchy information, because the idea is to get it into the hands of the intermediary.

I'm not sure, Mr. Chairman, that we have a problem. I would be happy to look into it and provide some additional information to you for the record.

We have obligated $10 million that were available to us the first half of fiscal year 1989.

Senator BURDICK. Let's get down to the concrete cases now.

There is $14 million. How much of that has actually been used from this fund? How many dollars have found their way into development?

Mr. JOHNSON. There was $14 million total authority. We were apportioned only $10 million through March 31, 1989. All of that was obligated.

This quarter we were apportioned the other $4 million, and we are currently working on that. We have authorized $2.5 million of the $4 million. However, we are unable to obligate the remaining $1.5 million until outstanding rural development loan fund loan payments have been collected into the revolving fund.

Senator BURDICK. What bothers me is the word "obligate."

Have checks been written?

Mr. JOHNSON. No, sir; funding is earmarked to the projects. Intermediaries know it. We are working with them to complete any needed information. We expect all of them to be closed.

Again, I would be happy to look into specific cases to see to what extent some are not funded and the reasons for it, if you would like.

The commitment has been made by us to intermediaries for them to expend the money when they are ready to expend it on specific projects in their community.

Senator BURDICK. Will you provide the committee with the amount of applications received and the applications rejected, and the applications waiting for approval, so we know what those are. And if you would, also put in the dollar amounts.

Mr. JOHNSON. Yes, sir; we would be happy to do that.

[The information follows:]

In fiscal year 1989, for the period October 1, 1989-April 20, 1989, the Farmers Home Administration has received 37 applications for Intermediary Relending Program [IRP] loans totaling $54,425,000. We have rejected 21 applications during this period and all have since reapplied. We currently have in various stages of processing 26 applications totaling $41,125,000. The attached table provides a listing of the IRP applications received in fiscal year 1989 which have either been approved for funding (12 for $12,500,000) or are being processed.

B&I INTERMEDIARY RELENDING PROGRAM APPLICATIONS
FISCAL YEAR 1989

The following table lists the Intermediary Relending Program (IRP) applications which have been received by the Farmers Home Administration in Fiscal Year 1989. Projects marked "#" following the State abbreviation have been approved for funding. All others are in various stages of processing.

NAME	LOCATION	AMOUNT
North Central Pennsylvania Regional Planning & Development Commission	Ridgway, PA#	500,000
Albia Industrial Development Corporation	Albia, IA#	900,000
Northern Tier Regional Planning & Development Commission	Towanda, PA#	500,000
Mid-America, Inc.	Pittsburg, KS#	750,000
Miami Area Economic Development Service, Inc.	Miami, OK#	1,000,000
Greater Salt Lake Business District, Inc. d/b/a Deseret Certified Development Company	Salt Lake City, UT#	800,000
North Carolina Rural Fund for Development	New Bern, NC#	900,000
South Dakota Economic Development Finance Authority	Pierre, SD#	2,500,000
Rural Enterprises, Inc.	Durant, OK#	1,500,000
New York Job Development Authority	Albany, NY#	650,000
Nebraska Economic Development Corporation	Lincoln, NE#	2,000,000
Lake Champlain-Lake George Regional Planning Board	Lake George, NY#	500,000
Georgia Development Authority	Tucker, GA	3,000,000
Impact Acceptance Corp.	Turtle Lake, WI	2,350,000

NAME	LOCATION	AMOUNT
Southern Alleghenies Planning and Development Commission	Altoona, PA	500,000
Georgia Mountains Regional Economic Development Corp.	Gainesville, GA	1,500,000
Franklin County Industrial Development Corporation	St. Albans, VT	900,000
Illinois Development Finance Authority	Chicago, IL	3,000,000
California Statewide Certified Development Corp.	Sacramento, CA	3,000,000
Community Investment Corporation	Farmington, UT	2,000,000
Community Resource Group, Inc.	Springdale, AR	1,000,000
Pioneer Country Development, Inc.	Hill City, KS	300,000
California Coastal Rural Development Corporation	Salinas, CA	3,000,000
Colorado Housing and Finance Authority	Denver, CO	1,500,000
South Jersey Economic Development District, Inc.	Bridgeton, NJ	1,000,000
Del Norte Economic Development Corporation	Crescent City, CA	300,000
Eastern Maine Development Corporation	Bangor, ME	1,500,000
Rural Community Assistance Corporation	Sacramento, CA	2,000,000
Self-Help Ventures Fund	Durham, NC	1,500,000
Northwest Pennsylvania Regional Planning & Development Commission	Franklin, PA	975,000
Great Plains Development, Inc.	Dodge City, KS	800,000

NAME	LOCATION	AMOUNT
Illinois Farm Development Authority	Springfield, IL	3,000,000
Kentucky Highlands Investment Corp.	London, KY	3,000,000
Butler County Rural Electric Cooperative Assn., Inc.	El Dorado, KS	1,500,000
Cumberland Valley Area Development District	London, KY	500,000
Ironton-Lawrence County Area Community Action Organization	Ironton, OH	3,000,000

ADMINISTRATIVE CHANGES TO BE IMPLEMENTED

Senator BURDICK. In the interim report issued last week, the Commission for the Improvement of the Federal Crop Insurance Program recommended 26 administrative changes for implementation by July 1989.

I sent my staff to the Commission's field hearing today in North Dakota, and I expect a report on the testimony from each of the Commission's upcoming field hearings.

Should we expect more administrative and legislative recommendations as a result of these hearings?

Mr. Marshall, acknowledging your participation on this Commission, do you think it is realistic to expect that 26 administrative recommendations can be implemented within the July timeframe?

Mr. VAUTOUR. Mr. Chairman, if I might, at the present time, we are currently implementing about 13 of those 26 suggestions and changes that the Federal Crop Commission has recommended.

I am going to ask Mr. Marshall to give you more specific information with the balance of the 13 that are not currently being implemented, and would ask Mr. Marshall if he would address that issue, please.

Mr. MARSHALL. Mr. Chairman, we wholeheartedly concur with the need for a thorough study of our program and have welcomed the participation, as you know, of the Commission.

The entirety of the recommendations are, in our estimation, very good, sound ideas. As Mr. Vautour said, there are a number of things that we are doing already, and others that we believe we can accommodate sometime within the next few months, in time for the 1990 crop year. They are things that can be done administratively.

There are some recommendations that we think require further study and that require some legal review and estimation as to the cost impacts and regulatory steps that might be taken. But, on balance, we think there are very positive ideas, and we are confident that we can get something in place to meet most of the intentions by July 1.

Senator BURDICK. We'll try to hurry things along through these field hearings in North Dakota.

Mr. MARSHALL. Yes, sir.

There have been some 14 or 15 field hearings, and we are getting a lot of solid input from the producers who are testifying.

Senator BURDICK. And I'm sure you will get some input from North Dakota. I am positive.

Mr. MARSHALL. I know we will, sir.

Senator BURDICK. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Like I always remind the chairman, don't forget, there is Iowa, too.

Senator BURDICK. Oh, yes. [Laughter.]

WATER AND SEWER LOANS AND GRANTS

Senator GRASSLEY. The first question I have is for Mr. Johnson. But I want first to tell you that I appreciate your coming to my office last week to discuss the Rural Water and Sewer Loan Grant Program. I, of course, was not there, because I had the whistleblower bill on the floor of the Senate. I am sorry that I was not able to be there. But I understand that it was a very productive meeting.

As a followup of that meeting, is it possible for you to compile a list of applications and preapplications currently filed with the Farmers Home Administration?

Mr. JOHNSON. Could you expand on that just a little bit for me? Applications and preapplications regarding what?

Senator GRASSLEY. The water and sewer loan and grant programs.

Mr. JOHNSON. Oh, specifically water and sewer. OK.

I knew that was what the meeting was about, but I wanted to be sure your question related only to water and sewer.

You would like for us to provide a list of the applications and preapplications?

Senator GRASSLEY. Yes; is that possible?

Mr. JOHNSON. By individual projects?

Senator GRASSLEY. Yes.

Mr. JOHNSON. And dollar amounts also, perhaps?

Senator GRASSLEY. Yes; I want the agency asking, the type of application. This is something unrelated to whether or not you can do it because however you have to do it, I want it done.

But is it wrong for me to assume that in an agency like USDA, they have a computer where you punch a couple of buttons and it spits out this information right away? If not, I guess I am going to be expecting a lot of a lot of departments that I am not going to get, if you cannot do it that way?

Mr. JOHNSON. All right. Let me seek a little further clarification. We have as of March 6, 1989, 1,222 preapplications and applications in water and waste nationwide.

Are you looking for all the preapplications, or the actual applications, or are you looking at those that have cleared the State, or are in the National Office?

Senator **Grassley**. We are looking for those that have come from any local political subdivision, or, if there are nonprofit corporations that do it, to the USDA at any level. OK?

Mr. **Johnson**. OK.

Senator **Grassley**. Thank you.

[The information follows:]

FARMERS HOME ADMINISTRATION
WATER AND WASTE DISPOSAL DIVISION
STATUS CODES

"LOAN STAT" - Status Code for Loans

"GRANT STAT" - Status Code for Grants

PREAPPLICATIONS - 100 Numbers

APPLICATIONS - 200 Numbers

FARMERS HOME ADMINISTRATION
WATER AND WASTE DISPOSAL DIVISION
PREAPPLICATIONS AND APPLICATIONS
LOAN AND GRANT
AS OF 04/21/89

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
-----	--------	----	----	----	------	-----	-----	------
ALABAMA	PICKENSVILLE, THE	00	101	03/06/89	$192,000	000	00/00/00	
ALASKA	KACHEMAK CITY, CITY	92	101	04/08/88	$440,000	000	00/00/00	
ARKANSAS	EUREKA SPRINGS,	92	101	12/02/87	$635,000	101	12/02/87	$635,000
	CHESTER, TOWN OF	91	101	02/08/89	$9,900	130	02/08/89	$44,500
	MARION, CITY OF	91	101	02/23/89	$280,000	000	00/00/00	
	MARION, CITY OF	92	101	02/23/89	$1,041,000	000	00/00/00	
	EARLE,CITY OF	92	101	09/28/88	$82,500	000	00/00/00	
	GILMORE, CITY OF	92	101	10/02/86	$350,000	000	00/00/00	
	GILMORE, CITY OF	92	101	10/02/86	$150,000	000	00/00/00	
	LEE COUNTY WATER	91	101	06/21/86	$479,200	101	06/21/86	$310,800
	ENGLAND, CITY OF	91	101	02/16/81	$410,000	000	00/00/00	
	TRI-COUNTY REGIONAL	91	101	01/21/89	$777,000	000	00/00/00	
	PALESTINE, CITY OF	91	101	07/25/83	$346,500	101	07/25/83	$75,900
CALIFORNIA	CRESCENT CITY	92	101	04/29/88	$1,173,500	101	04/29/88	$347,500
	FRESNO COUNTY	91	101	06/20/88	$77,776	101	06/20/88	$865,974
	FRESNO COUNTY	91	101	03/09/88	$101,500	101	03/09/88	$304,400
	CARVER MWC	91	101	09/02/87	$189,036	101	09/02/87	$318,000
	ARROWBEAR PARK CWD	91	101	04/29/88	$250,000	000	00/00/00	
COLORADO	ALAMOSA, CITY OF	92	101	11/28/88	$570,000	101	11/28/88	$570,000
CONNECTICUT	MONTVILLE TOWN OF	92	101	03/13/89	$246,096	101	03/13/89	$984,365
FLORIDA	LANARK VILLAGE	92	101	12/28/87	$125,000	101	12/28/87	$350,000
	WEWAHITCHKA CITY OF	92	101	09/16/88	$325,000	000	00/00/00	
	MILLIGAN WATER	91	101	12/28/88	$400,000	000	00/00/00	
	PAHOKEE, CITY OF	92	101	12/20/86	$1,400,000	000	00/00/00	
	ST JOHNS CO BD	91	101	11/23/87	$3,744,000	000	00/00/00	
	ST JOHNS CO BD	92	101	11/16/87	$1,987,000	000	00/00/00	
GEORGIA	FLOVILLA CITY OF	91	101	01/30/89	$175,150	101	01/30/89	$525,450
	STILLMORE CITY OF	92	101	02/07/89	$200,000	101	02/07/89	$684,000
	HARRIS COUNTY	91	101	01/22/88	$1,500,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	HARTWELL CITY OF	91	101	11/21/88	$1,100,000	000	00/00/00	
	CADWELL TOWN OF	91	101	09/26/88	$198,455	101	09/26/88	$198,455
	HAHIRA CITY OF	91	101	09/08/88	$303,002	101	09/08/88	$625,647
	HAHIRA CITY OF	92	101	09/08/88	$303,003	101	09/08/88	$624,648
	HAHIRA CITY OF	92	101	09/08/88	$303,003	101	09/08/88	$625,648
	LAKE PARK TOWN OF	91	101	01/20/89	$117,382	101	01/20/89	$220,128
ILLINOIS	CLAYTON CAMP POINT	91	101	10/06/88	$887,500	000	00/00/00	
	HAMILTON COUNTY	91	101	08/23/88	$120,000	000	00/00/00	
	RURAL WABASH COUNTY	91	101	11/28/88	$675,000	101	11/28/88	$825,000
INDIANA	MARYSVILLE-OTISCO-	91	101	02/02/89	$585,266	000	00/00/00	
	SELLERSBURG, TOWN O	92	101	02/02/89	$4,637,450	000	00/00/00	
	NORTH DEARBORN	91	101	03/21/89	$2,533,000	000	00/00/00	
	CORUNNA, TOWN OF	91	101	11/09/88	$151,000	000	11/09/88	— $453,000
	DUBOIS UTILITIES, I	91	101	08/31/88	$209,000	101	08/31/88	$780,000
	BROOKVILLE, TOWN OF	92	101	01/11/89	$1,146,000	000	00/00/00	
	ROCHESTER, CITY OF	91	101	11/09/88	$279,000	000	11/09/88	$341,000
	ROCHESTER, CITY OF	92	101	11/09/88	$410,000	000	11/09/88	$500,000
	NORTH WEBSTER	92	101	11/04/88	$151,000	000	11/04/88	$453,000
	NORTH WEBSTER	92	101	11/04/88	$675,000	000	11/04/88	$825,000
	TURKEY RUN REGIONAL	92	101	02/27/89	$564,734	101	02/27/89	$700,000
	MEDARYVILLE, TOWN	91	101	09/30/88	$533,550	101	09/30/88	$652,115
	MILAN, TOWN OF	92	101	07/11/88	$616,055	000	00/00/00	
	SUNMAN, TOWN OF	92	101	03/19/87	$220,000	101	03/19/87	$280,000
	WEST TERRE HAUTE,	92	101	02/16/89	$2,017,270	000	00/00/00	
	CAMPBELLSBURG, TOWN	92	101	01/03/89	$240,950	000	00/00/00	
KANSAS	NORTON DEVELOPMENT	92	101	12/22/88	$37,000	000	00/00/00	
KENTUCKY	CAWOOD WATER	91	101	12/08/88	$692,000	101	12/08/88	$1,125,500
	LYNCH, CITY OF	91	101	03/24/89	$323,850	101	03/24/89	$323,850
LOUISIANA	SOUTH BEAUREGARD	91	101	06/10/88	$610,000	000	00/00/00	
	CADDO PARISH WWD #9	91	101	03/24/89	$2,160,000	000	00/00/00	
	HEBERT WATER SYSTEM	91	101	07/20/88	$48,000	101	07/20/88	$112,000
	STANLEY WATER	91	101	03/23/89	$35,000	000	00/00/00	$105,000
	MANSFIELD CITY OF	92	101	03/24/89	$1,000,000	101	03/24/89	$750,000
	GEORGETOWN VILLAGE	91	101	05/19/88	$275,000	000	00/00/00	
	LASALLE SD # 1	92	101	05/18/88	$333,412	000	00/00/00	
	TOWN OF DUBACH	92	101	03/24/89	$200,000	101	03/24/89	$300,000
	NORTH MONROE SD	92	101	06/10/88	$130,000	000	00/00/00	
	POINTE COUPEE SD #1	92	101	08/01/88	$157,000	101	08/01/88	$443,000
	PLAISANCE DEVELOPME	92	101	02/27/89	$446,163	101	02/27/89	$1,338,491
	PLAISANCE DEVELOPME	92	101	02/27/89	$441,743	101	02/27/89	$1,325,230

STATE NAME -----	BORROWER NAME ---------	FUND CODE ----	LOAN STAT ----	LOAN STAT DATE ----	LOAN AMOUNT ------	GRANT STAT -----	GRANT STAT DATE -----	GRANT AMOUNT ------
	PLAISANCE DEVELOPME	92	101	02/27/89	$294,482	101	02/27/89	$883,447
	TICKFAW, VILLAGE OF	92	101	10/13/88	$650,000	000	00/00/00	
	TRI WATER SYSTEM	91	101	07/20/88	$52,000	101	07/20/88	$130,000
	TOWN OF CULLEN	92	101	03/24/89	$467,600	101	03/24/89	$488,400
	FISKE UNION WATER	91	101	01/09/89	$200,000	101	01/09/89	$200,000
MAINE	BERWICK, TOWN OF	91	101	03/17/89	$1,549,000	000	00/00/00	
	TOWN OF BLAINE	92	101	12/07/88	$1,419,600	000	00/00/00	
	MARS HILL UTILITY	91	101	10/05/88	$2,065,000	000	00/00/00	
	SINCLAIR SANITARY D	92	101	02/26/88	$259,500	000	00/00/00	
MASSACHUSETTS	MASHPEE WATER DISTR	91	101	02/02/89	$801,000	000	00/00/00	
	HINSDALE TOWN OF	91	101	02/09/89	$1,100,000	000	00/00/00	
	WAREHAM, TOWN OF	92	101	10/11/88	$2,375,505	000	00/00/00	
	CHATHAM, TOWN OF	91	101	01/25/89	$312,650	000	00/00/00	
MICHIGAN	WHITTEMORE CITY OF	91	101	02/13/89	$1,750,000	000	00/00/00	
	WHITTEMORE CITY OF	92	101	07/25/88	$1,750,000	000	00/00/00	
MINNESOTA	BETHEL CITY OF	92	101	09/01/87	$458,560	000	00/00/00	
	NEW GERMANY, CITY O	91	101	11/14/88	$257,000	000	00/00/00	
	OAKPORT, TOWN OF	91	101	10/05/88	$1,783,000	000	00/00/00	
	ULEN, CITY OF	92	101	04/11/88	$351,400	000	00/00/00	
	WYKOFF, CITY OF	92	101	12/02/88	$269,500	000	00/00/00	
	BRAHAM CITY OF	91	101	05/10/88	$338,000	000	00/00/00	
	BRAHAM CITY OF	91	101	10/06/88	$477,508	000	00/00/00	
	MONTGOMERY, CITY OF	92	101	08/26/88	$255,990	000	00/00/00	
	ONAMIA, CITY OF	91	101	09/18/87	$375,000	101	09/18/87	$125,000
	LANSING, TOWNSHIP	91	101	01/11/88	$70,000	000	00/00/00	
	GARY, CITY OF	92	101	07/13/87	$1,149,600	000	00/00/00	
	EDEN VALLEY CITY OF	92	101	06/12/87	$550,000	000	00/00/00	
	ZUMBRO FALLS,	92	101	11/14/88	$190,000	000	00/00/00	
	KELLOGG CITY OF	92	101	03/07/88	$1,480,115	000	00/00/00	
	VERNDALE, CITY OF	92	101	05/10/88	$256,150	000	00/00/00	
	CANBY CITY OF	92	101	08/12/87	$1,075,500	000	00/00/00	
	ST LEO, CITY OF	92	101	12/11/87	$102,000	000	00/00/00	
	ELY CITY OF	91	101	06/15/87	$1,040,000	000	00/00/00	
MISSISSIPPI	BOYLE SKENE WATER	91	101	10/01/88	$17,075	000	00/00/00	
	BIG CREEK WATER	91	101	03/23/89	$284,000	101	03/23/89	$91,000
	MCCARLEY WATER ASSN	91	101	06/07/88	$75,000	000	00/00/00	
	EAST CHICKASAW	91	101	02/21/89	$790,000	000	00/00/00	
	HOUSTON CITY OF	92	101	03/20/89	$250,000	000	00/00/00	
	ACKERMAN TOWN OF	92	101	09/30/87	$215,000	000	00/00/00	
	ACKERMAN TOWN OF	92	101	09/30/87	$215,000	101	09/30/87	$215,000
	FRENCH CAMP WATER	91	101	07/22/82	$314,000	000	00/00/00	

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	BOBO UTILITY ASSN	92	101	09/16/88	$93,150	000	00/00/00	
	LURAND WATER ASSN	92	101	09/16/88	$120,000	000	00/00/00	
	FARRELL WATER ASSN	92	101	09/16/88	$127,650	000	00/00/00	
	NORTH HINDS WATER	91	101	10/30/87	$128,000	000	00/00/00	
	ABBEVILLE WATER	91	101	02/21/89	$200,000	000	00/00/00	
	MONTICELLO TOWN OF	91	101	01/30/89	$50,000	000	00/00/00	
	RED BANKS WTR ASSN	91	101	10/26/88	$1,700	101	10/26/88	$4,800
	CENTRAL WATER ASSN	91	101	08/10/88	$460,000	000	00/00/00	
	MASHULAVILLE WATER	91	101	11/01/88	$181,400	000	00/00/00	
	SHUQUALAK, TOWN OF	91	101	07/11/88	$49,000	101	07/11/88	$195,600
	SHUQUALAK, TOWN OF	92	101	09/11/87	$350,000	000	00/00/00	
	SHUQUALAK, TOWN OF	92	101	09/09/87	$350,000	000	00/00/00	
	CONCORD MACEDONIA	00	101	00/00/00	$91,036	000	00/00/00	
	BIG V WATER ASSN	91	101	09/13/88	$485,000	000	00/00/00	
	TAYLORSVILLE WATER	91	101	12/15/75	$36,000	000	00/00/00	
	HOMEWOOD WATER ASSN	91	101	07/22/88	$37,500	101	07/22/88	$112,500
	HIGH HILL WATER	91	101	07/22/88	$37,500	101	07/22/88	$112,500
	H AND H WATER ASSN	91	101	06/24/88	$37,500	101	06/24/88	$112,500
	HARRISVILLE WATER	91	101	10/03/88	$180,000	000	00/00/00	
	ELLISON RIDGE WATER	92	101	09/18/87	$102,000	101	09/18/87	$102,000
MISSOURI	HOWARD CO, PWSD #2	91	101	10/14/87	$276,800	151	00/00/00	
	HOWARD CO, PWSD #2	91	101	10/14/87	$276,800	000	00/00/00	
	NECK CITY, CITY OF	92	101	10/11/88	$38,700	101	10/11/88	$146,700
	STOTTS CITY, CITY O	92	101	10/14/88	$102,500	101	10/14/88	$307,500
	SOUTH LINEVILLE	92	101	01/11/88	$96,150	000	00/00/00	
	ANNISTON, CITY OF	92	101	03/02/89	$115,030	101	03/02/89	$439,522
	SCOTT, P.W.S.D #1	91	101	02/06/89	$355,965	000	02/06/89	$140,837
	MORLEY, CITY OF	92	101	02/06/89	$600,000	000	02/06/89	$418,250
	STODDARD CO, PWSD 6	91	101	12/22/88	$261,750	101	12/22/88	$261,750
NEVADA	WELLS CITY OF	91	101	04/02/86	$734,000	101	04/02/86	$2,202,000
NEW MEXICO	RANCHO GRANDE WATER	91	101	08/03/88	$352,637	000	00/00/00	
NEW YORK	BLACK BROOK TN OF	92	101	01/09/89	$340,000	101	01/09/89	$216,100
	CROWN POINT TOWN	91	101	02/28/89	$248,800	000	00/00/00	
	JAY TOWN OF	92	101	01/12/89	$741,000	101	01/12/89	$247,300
	LEROY VILLAGE OF	91	101	03/02/89	$1,800,000	000	00/00/00	
	LEROY VILLAGE OF	92	101	03/02/89	$3,000,000	000	00/00/00	
	SHARON SPRINGS	91	101	03/24/89	$443,000	101	03/24/89	$537,000
	LLOYD TOWN	91	101	03/03/89	$2,000,000	000	00/00/00	
NORTH CAROLINA	ELK PARK, TOWN OF	91	101	12/10/85	$1,117,200	000	00/00/00	
	ATLANTIC BEACH,	92	101	10/08/85	$4,257,231	000	00/00/00	
	ATLANTIC BEACH,	92	101	10/08/85	$3,732,769	000	00/00/00	

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	SOUTHWEST W & S	91	101	01/12/89	$3,760,000	000	00/00/00	
	SOUTHEAST W & S	91	101	01/12/89	$4,135,000	000	00/00/00	
	COFIELD, TOWN OF	92	101	08/04/88	$219,198	101	08/04/88	$1,350,000
	BELL ARTHUR WATER	91	101	03/13/89	$1,687,630	000	00/00/00	
	EASTERN PINES WATER	91	101	03/13/89	$2,831,250	000	00/00/00	
	ROLESVILLE, TOWN OF	92	101	08/09/88	$598,525	000	00/00/00	
	SOUTHEASTERN WAYNE	91	101	01/05/89	$2,647,500	000	00/00/00	
	SOUTHEASTERN WAYNE	91	101	01/05/89	$3,431,125	000	00/00/00	
	BELFAST-PATETOWN SD	91	101	01/13/89	$2,704,475	000	00/00/00	
NORTH DAKOTA	ELGIN, CITY OF	91	101	02/09/89	$420,000	101	02/09/89	$239,000
	GARRISON, CITY OF	91	101	03/22/89	$700,000	101	03/22/89	$2,100,000
	STREETER, CITY OF	91	101	08/24/88	$62,500	101	08/24/88	$187,500
OKLAHOMA	BOKCHITO PUBLIC	91	101	09/27/88	$200,600	101	09/27/88	$94,200
	BUCKHORN RURAL	91	101	09/23/88	$70,000	101	09/23/88	$210,000
	MURRAY CO RWD #1	91	101	02/14/89	$80,000	101	02/14/89	$195,000
	BEGGS PWA	91	101	11/18/88	$450,000	000	00/00/00	
	BARNSDALL PWA	91	101	03/08/89	$441,700	000	00/00/00	
OREGON	SILETZ CITY OF	92	101	01/03/89	$480,000	401	10/09/82	$123,400
	SWEET HOME CITY OF	91	101	12/23/88	$2,635,000	000	00/00/00	
	MONMOUTH, CITY OF	92	101	03/16/89	$1,100,000	000	00/00/00	
PENNSYLVANIA	MILLHEIM BOROUGH	92	101	09/29/88	$1,034,500	101	09/29/88	$1,045,000
	MADISON TOWNSHIP	92	101	11/16/88	$174,146	101	11/16/88	$170,000
	WOOD TOWNSHIP	92	101	07/30/85	$283,100	101	07/30/85	$250,605
	SOUTH ABINGTON SEWE	92	101	02/18/88	$1,800,000	000	00/00/00	
	SMITHFIELD,	92	101	07/12/85	$705,000	000	00/00/00	
	SNYDERTOWN BOROUGH	92	101	11/14/88	$443,200	000	00/00/00	
	NICHOLSON	91	101	08/29/88	$750,000	000	00/00/00	
PUERTO RICO	PATILLAS	92	101	10/11/88	$525,000	101	10/11/88	$2,623,000
	COM ANONES MAYA	91	101	01/15/88	$558,739	000	00/00/00	
SOUTH CAROLINA	MCCORMICK, COUNTY	91	101	05/09/88	$217,005	000	00/00/00	
	WALLACE WATER CO	00	101	03/22/89	$159,000	101	03/22/89	$159,000
SOUTH DAKOTA	LABOLT, TOWN OF	92	101	03/01/89	$58,000	101	03/01/89	$17,300
TENNESSEE	BEDFORD COUNTY	91	101	06/10/88	$1,590,000	000	00/00/00	
	DEKALB COUNTY	91	101	12/28/88	$325,000	000	00/00/00	
	SPRING CREEK	91	101	01/27/89	$525,000	101	01/27/89	$525,000
	FIRST UTILITY DIST	91	101	12/19/88	$584,130	000	00/00/00	
	HOHENWALD CITY OF	91	101	12/30/88	$200,000	000	00/00/00	
	PLATEAU UTILITY	91	101	01/18/89	$900,000	101	01/18/89	$900,000
	HUNTSVILLE	91	101	01/26/89	$677,800	101	01/26/89	$750,000
TEXAS	BAYLOR WSC	91	101	06/01/87	$630,000	000	00/00/00	
	CEGO DURANGO WSC	91	101	03/18/88	$320,000	000	00/00/00	

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	FAYETTE WSC	91	101	02/26/88	$600,000	000	00/00/00	
	SCHERTZ, CITY OF	91	101	05/01/88	$1,531,455	000	00/00/00	
	HAMILTON CITY OF	92	101	10/17/88	$167,000	101	10/17/88	$501,650
	HILL COUNTY WSC	91	101	08/09/88	$791,500	000	00/00/00	
	AQUILLA WSC	91	101	02/28/89	$120,000	000	00/00/00	
	CROSS COUNTRY WSC	91	101	02/27/89	$105,650	000	00/00/00	
	CITY OF NEWTON	91	101	08/22/88	$1,222,900	000	00/00/00	
	MAURICEVILLE WSC	91	101	07/08/88	$485,000	000	00/00/00	
	PARKER COUNTY WSC	91	101	08/05/87	$500,000	000	00/00/00	
	PINE RIDGE WSC	91	101	01/19/89	$208,000	000	00/00/00	
	EDGEWOOD, CITY OF	91	101	01/09/89	$1,034,000	101	01/09/89	$568,000
	RIVERSIDE WSC	91	101	07/07/88	$975,000	000	00/00/00	
UTAH	CENTERFIELD TOWN	91	101	06/30/88	$1,294,000	101	06/30/88	$320,000
	IVINS TOWN OF	92	101	01/20/87	$150,000	000	00/00/00	
	PLEASANT VIEW CITY	91	101	09/28/87	$699,860	000	00/00/00	
VIRGINIA	COVINGTON CITY OF	91	101	09/16/88	$6,374,800	000	00/00/00	
	CARROLL COUNTY PSA	91	101	08/14/86	$87,200	101	08/14/86	$231,600
	RAPIDAN SERVICE	91	101	11/01/88	$3,059,674	000	00/00/00	
	RAPIDAN SERVICE	92	101	11/01/88	$1,110,030	000	00/00/00	
	SMYTH COUNTY PUBLIC	91	101	09/13/88	$109,800	101	09/13/88	$305,000
	WYTHEVILLE TOWN OF	92	101	06/20/88	$271,000	101	06/20/88	$548,000
	WYTHE COUNTY	91	101	06/23/88	$343,300	101	06/23/88	$367,000
WEST VIRGINIA	KENOVA, CITY OF	91	101	10/21/87	$487,000	000	00/00/00	
WISCONSIN	ONEIDA TRIBE OF	92	101	12/15/88	$1,618,700	000	00/00/00	
	DOWNSVILLE SAN DIST	91	101	06/15/86	$162,000	000	00/00/00	
	KNIGHT, TOWN OF	91	101	12/09/88	$150,000	101	12/09/88	$450,000
	ATHENS, VILLAGE OF	91	101	12/15/88	$40,000	101	12/15/88	$120,000
	SPENCER, VILLAGE OF	92	101	03/01/89	$1,232,800	000	00/00/00	
	BEAR CREEK, VILLAGE	91	101	11/02/88	$370,800	101	11/02/88	$397,800
	JUNCTION CITY,VILL.	92	101	08/12/88	$112,500	000	00/00/00	
	JUNCTION CITY,VILL.	92	101	08/12/88	$112,500	000	00/00/00	
	FIFIELD S D	91	101	12/14/88	$305,000	101	12/14/88	$610,000
	SHELDON,VILLAGE OF	91	101	12/15/88	$30,000	101	12/15/88	$80,000
	CHELSEA, TOWN OF	92	101	04/29/88	$914,166	000	00/00/00	
	PIGEON FALLS	91	101	09/01/88	$360,000	000	00/00/00	
	PIGEON FALLS	92	101	09/01/88	$130,500	000	00/00/00	
	VIOLA, VILLAGE OF	92	101	01/18/89	$227,500	000	00/00/00	
	SHELL LAKE CITY OF	91	101	12/20/88	$977,275	000	00/00/00	
	SHELL LAKE CITY OF	92	101	12/20/88	$1,418,500	000	00/00/00	
	NEENAH, TOWN OF SD	92	101	10/14/88	$1,000,000	000	00/00/00	

STATE NAME -----	BORROWER NAME --------	FUND CODE ----	LOAN STAT ----	LOAN STAT DATE ----	LOAN AMOUNT ------	GRANT STAT -----	GRANT STAT DATE -----	GRANT AMOUNT ------
ALABAMA	WEST AUTAUGA WATER	91	112	08/22/88	$956,000	112	08/22/88	$2,677,000
	ELAMVILLE W & F P A	91	112	08/11/88	$55,000	112	08/11/88	$145,000
	SNEAD, TOWN OF	91	112	10/14/86	$269,000	112	10/14/86	$750,000
	NECTAR, TOWN OF	91	112	04/06/88	$490,000	112	04/06/88	$302,000
	SOUTH BULLOCK CO	91	112	09/11/87	$290,000	112	09/11/87	$790,000
	GILBERTOWN, THE UTI	91	112	01/30/89	$1,092,000	112	01/30/89	$635,000
	NORTH CHOCTAW CO	91	112	08/15/88	$297,000	000	00/00/00	
	OLD LINE WATER AUTH	91	112	02/23/89	$920,000	112	02/23/89	$373,000
	KELLYTON WATER	91	112	09/12/88	$248,000	000	00/00/00	
	ROCKFORD, WW & SWR	92	112	11/08/88	$77,000	112	11/08/88	$425,000
	GOODWATER, T WTR WK	91	112	01/09/89	$334,000	000	00/00/00	
	IDA STATION WATER	91	112	04/10/87	$222,000	000	00/00/00	
	QUINT MAR WFPA	91	112	11/23/88	$562,000	112	11/23/88	$610,000
	RUTLEDGE, TOWN OF	92	112	01/30/89	$189,000	112	01/30/89	$464,000
	BIG WILLS W&FPA	91	112	07/18/88	$259,000	000	00/00/00	
	BERRY, TOWN OF	91	112	06/24/87	$82,000	112	06/24/87	$225,000
	PHIL CAMPBELL, THE	91	112	11/30/88	$375,000	000	00/00/00	
	AKRON TOWN OF	92	112	10/31/88	$156,000	112	10/31/88	$435,000
	BEAUREGARD W & FPA	91	112	12/19/88	$1,559,000	000	00/00/00	
	WHITE HALL, TOWN OF	91	112	07/15/87	$250,500	112	07/15/87	$213,000
	MACON COUNTY WATER	91	112	12/14/87	$520,000	112	12/14/87	$1,445,000
	HARVEST MONROVIA WA	91	112	02/23/88	$2,006,000	000	00/00/00	
	MYRTLEWOOD, TOWN OF	91	112	03/02/88	$454,000	000	00/00/00	
	LEMOYNE WATER	91	112	02/29/88	$749,000	000	00/00/00	
	URIAH WATER SYSTEM	91	112	12/20/88	$497,000	000	00/00/00	
	PINE LEVEL WTR & FI	91	112	01/03/89	$102,000	112	01/03/89	$207,000
	PERRY COUNTY WTR SE	91	112	10/14/87	$421,000	112	10/14/87	$1,170,000
	CARROLLTON, TOWN OF	92	112	01/10/89	$77,600	000	00/00/00	
	RANDOLPH COUNTY	91	112	09/23/88	$144,000	112	09/23/88	$308,000
	LADONIA CRAWFORD	91	112	01/24/89	$1,420,000	151	01/24/89	$1,008,000
	LADONIA CRAWFORD	91	112	01/24/89	$453,000	000	00/00/00	
	BETHEL WATER SYSTEM	91	112	04/01/87	$330,000	000	00/00/00	
	THE CENTRAL TALLADE	91	112	09/08/87	$1,058,000	000	00/00/00	
	WEST WALKER WATER	91	112	01/19/89	$56,000	112	01/19/89	$215,000
	MCINTOSH WATER &	91	112	12/05/88	$273,000	000	00/00/00	
ARIZONA	SURPRISE, TOWN OF	92	112	04/07/87	$1,912,200	112	04/07/87	$1,912,200
	MT. LEMMON COOP.	91	112	09/13/88	$100,000	000	00/00/00	
	WILLCOX, CITY OF	92	112	01/07/88	$1,000,000	112	01/07/88	$840,000
	BUCKSKIN SANITARY	92	112	02/28/88	$3,144,893	000	00/00/00	
	PRESCOTT VALLEY,	91	112	03/22/88	$7,200,000	000	00/00/00	
	PRESCOTT VALLEY,	92	112	03/22/88	$8,200,000	112	03/22/88	$24,600,000

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
ARKANSAS	WRIGHTSVILLE, CITY	92	112	09/16/83	$194,016	130	09/19/83	$194,669
CALIFORNIA	DUCOR CSD	91	112	09/13/88	$43,000	112	09/13/88	$52,550
COLORADO	FLORENCE, CITY OF	91	112	10/18/88	$327,557	112	10/18/88	$982,671
CONNECTICUT	KILLINGLY TOWN OF	92	112	08/15/88	$1,200,000	000	00/00/00	
DELAWARE	TOWNSEND, TOWN OF	91	112	04/07/88	$300,000	000	00/00/00	
	SUSSEX COUNTY	92	112	04/14/88	$2,842,800	000	00/00/00	
FLORIDA	HAWTHORNE, CITY OF	91	112	12/19/86	$500,000	000	00/00/00	
	CITRUS CO BD OF CO	92	112	12/16/88	$1,047,000	112	12/16/88	$3,141,000
	CITRUS CO BD OF CO	92	112	12/16/88	$1,153,000	112	12/16/88	$3,459,000
	MOLINO UTILITIES	91	112	12/23/88	$650,000	000	00/00/00	
	QUINCY, CITY OF	92	112	05/29/87	$200,000	112	05/29/87	$600,000
	BONIFAY CITY OF	91	112	12/08/87	$215,000	000	00/00/00	
	ORANGE CITY	91	112	06/07/84	$750,000	112	06/07/84	$750,000
	SOUTH WATERFRONT PA	91	112	12/28/87	$125,000	000	00/00/00	
	PANACEA AREA WTR	91	112	04/11/88	$391,400	000	00/00/00	
	ST MARKS TOWN OF	92	112	11/04/87	$500,000	000	00/00/00	
	DEFUNIAK SPRINGS,	91	112	09/29/88	$1,505,750	000	00/00/00	
GEORGIA	CAVE SPRING CITY OF	91	112	12/20/88	$614,000	112	12/20/88	$614,000
	HAZLEHURST CITY OF	92	112	12/21/87	$256,853	000	00/00/00	
	BARTOW TOWN OF	92	112	10/19/88	$186,710	112	10/19/88	$560,129
	ROCKY FORD, TOWN OF	91	112	02/07/89	$60,453	000	00/00/00	
	NORWOOD TOWN OF	92	112	03/31/87	$64,500	112	03/31/87	$372,500
	NORWOOD TOWN OF	92	112	03/31/87	$64,500	112	03/31/87	$372,500
	TIGNALL TOWN OF	92	112	12/14/88	$576,930	112	12/14/88	$576,930
IDAHO	DOVER, CITY OF	91	112	03/06/89	$193,700	112	03/06/89	$569,100
	ELK RIVER, CITY OF	92	112	03/21/88	$84,276	151	03/21/88	$76,414
ILLINOIS	MCCLURE-EAST CAPE	91	112	05/17/88	$97,000	000	00/00/00	
	PIERRON, VILLAGE OF	92	112	06/16/88	$561,550	000	00/00/00	
	HARDINVILLE WD	91	112	12/21/88	$458,000	112	12/21/88	$562,300
	RAMSEY, VILLAGE OF	91	112	03/06/85	$650,000	112	03/06/85	$643,700
	LONDON MILLS, VILL	91	112	03/20/89	$20,000	000	00/00/00	
	WEST CENT ILL WATER	91	112	03/18/87	$1,950,000	000	00/00/00	
	SHELDON, VILLAGE OF	91	112	05/31/88	$60,500	000	00/00/00	
	KINCAID-REED'S CRK	91	112	01/09/89	$2,669,150	000	00/00/00	
	KINCAID-REED'S CRK	91	112	01/09/89	$1,886,750	130	00/00/00	
	BELLE RIVE, VILL OF	92	112	06/18/87	$91,000	112	06/18/87	$279,000
	BELLE RIVE, VILL OF	92	112	06/18/87	$60,000	112	06/18/87	$186,000
	GOREVILLE, VILL OF	92	112	01/14/88	$78,000	000	00/00/00	$185,000
	PLEASANT GROVE WTR	91	112	12/09/88	$58,000	000	00/00/00	
	CEDAR POINT, VILL	91	112	09/22/88	$145,000	000	00/00/00	
	PETROLIA WATER DIST	91	112	03/10/88	$154,000	000	00/00/00	
	SUMNER, CITY OF	91	112	03/02/87	$600,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	EAGARVILLE, VILL OF	92	112	07/22/87	$30,000	112	07/22/87	$36,000
	SAWYERVILLE, VILL	92	112	07/22/87	$120,000	000	00/00/00	
	WILSONVILLE, VILL	91	112	02/24/88	$250,000	000	00/00/00	
	BENLD, CITY OF	92	112	03/09/88	$940,000	000	00/00/00	
	MARINE, VILLAGE OF	92	112	06/02/88	$550,600	000	00/00/00	
	PATOKA WATER COMP	91	112	08/25/88	$1,210,000	112	08/25/88	$600,000
	JOPPA SAN. DIST.	92	112	10/21/87	$145,000	000	00/00/00	
	KEITHSBURG, CITY OF	92	112	09/14/88	$79,000	112	09/14/88	$79,000
	FILLMORE, VILL OF	92	112	01/17/89	$55,000	112	01/17/89	$95,000
	COFFEEN, CITY OF	92	112	12/11/86	$671,900	000	00/00/00	
	CUTLER, VILLAGE OF	92	112	10/21/87	$237,300	000	00/00/00	
	PIKE COUNTY WATER	91	112	10/11/88	$217,000	112	10/11/88	$468,000
	COULTERVILLE, VILL	91	112	09/29/87	$331,000	000	00/00/00	
	CLAREMONT, VILL OF	91	112	08/25/88	$90,000	000	00/00/00	
	STONEFORT, VILL OF	92	112	02/09/89	$250,000	112	02/09/89	$750,000
	THAYER, VILLAGE OF	92	112	12/11/86	$250,000	000	00/00/00	
	THAYER, VILLAGE OF	92	112	12/11/86	$250,000	000	00/00/00	
	DEER CREEK, VILL OF	92	112	08/25/88	$130,000	000	00/00/00	
	GROVELAND TOWNSHIP	91	112	06/05/84	$170,000	000	00/00/00	
	ASHLEY, CITY OF	92	112	08/25/88	$654,500	000	00/00/00	
	WASHINGTON COUNTY	91	112	06/08/88	$1,890,000	112	06/08/88	$500,000
	KEENES, VILLAGE OF	92	112	12/21/88	$50,000	112	12/21/88	$159,000
	ENFIELD, VILLAGE OF	92	112	02/16/88	$136,000	000	00/00/00	
	CAMBRIA, VILLAGE OF	91	112	02/11/87	$275,000	000	00/00/00	
	PITTSBURG, VILL OF	92	112	12/21/88	$350,000	112	12/21/88	$877,700
	BLAIRSVILLE PUBLIC	92	112	06/01/88	$133,000	000	00/00/00	
	FREEMAN SPUR, VILL	91	112	04/27/88	$99,000	000	00/00/00	
INDIANA	PATOKA WATER CO, INC	91	112	12/01/87	$225,000	000	00/00/00	
	ENGLISH, TOWN OF	92	112	07/11/88	$707,496	000	00/00/00	
	ETNA GREEN, TOWN OF	92	112	06/20/88	$538,340	000	00/00/00	
	MEDARYVILLE, TOWN	92	112	07/14/88	$300,000	000	00/00/00	
	FRANCESVILLE, TOWN	92	112	08/03/88	$339,218	000	00/00/00	
IOWA	LUTHER, CITY OF	91	112	01/11/89	$195,000	000	00/00/00	
	CLAY COUNTY RURAL	91	112	04/05/88	$1,551,500	000	00/00/00	
	MARQUETTE, CITY OF	91	112	03/06/87	$100,000	000	00/00/00	
	BEAVERDALE HEIGHTS	91	112	08/22/88	$490,000	000	00/00/00	
	FAYETTE, CITY OF	91	112	02/09/89	$91,800	000	00/00/00	
	WAUCOMA, CITY OF	92	112	02/01/89	$759,100	000	00/00/00	
	PANORA, CITY OF	91	112	09/13/88	$1,105,500	000	00/00/00	
	RANDALL, CITY OF	92	112	12/11/87	$151,400	000	00/00/00	
	ARGYLE SEWER	92	112	12/01/88	$500,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
	LUCAS, CITY OF	92	112	02/09/89	$180,000	112	02/09/89	$510,000
	WILLIAMSON, CITY OF	92	112	02/07/89	$242,000	112	02/07/89	$372,500
	LYON & SIOUX RURAL	91	112	02/16/89	$3,440,000	000	00/00/00	
	PATTERSON, CITY OF	91	112	12/05/88	$120,200	000	00/00/00	
	BEVINGTON, CITY OF	91	112	01/05/89	$62,300	000	00/00/00	
	DEEP RIVER, CITY OF	92	112	02/09/89	$250,000	112	02/09/89	$612,000
	POWESHIEK WATER	91	112	02/16/89	$1,200,000	000	00/00/00	
	DELPHOS, CITY OF	91	112	01/11/89	$62,300	000	00/00/00	
	REDDING, CITY OF	91	112	01/12/89	$183,700	000	00/00/00	
	BENTON, CITY OF	91	112	01/12/89	$75,600	000	00/00/00	
	BEACONSFIELD, CITY	91	112	01/17/89	$83,200	000	00/00/00	
	KIRKMAN, CITY OF	91	112	02/07/89	$70,000	000	00/00/00	
	SOUTHERN IOWA RURAL	91	112	09/07/88	$200,000	112	09/07/88	$600,000
	SOUTHERN IOWA RURAL	91	112	02/08/89	$2,000,000	112	02/08/89	$4,000,000
	SOUTHERN IOWA RURAL	91	112	02/08/89	$1,300,000	112	02/08/89	$2,500,000
	WAPELLO RURAL WATER	91	112	10/24/88	$4,950,000	000	00/00/00	
	WAPELLO RURAL WATER	91	112	02/06/89	$5,000,000	112	02/06/89	$2,000,000
	CUMMING, CITY OF	92	112	11/03/88	$50,000	000	00/00/00	
	WARREN WATER, INC.	91	112	11/30/88	$3,062,000	000	00/00/00	
	WEST CHESTER,	92	112	01/26/89	$554,100	000	00/00/00	
KANSAS	CITY OF HOPE	91	112	02/28/89	$85,000	000	00/00/00	
	RWD NO 2 LANE	91	112	06/26/80	$5,346,500	112	06/26/80	$100,000
KENTUCKY	TRIMBLE COUNTY	91	112	12/12/88	$425,000	000	00/00/00	
LOUISIANA	WARD 5 WATERWORKS	91	112	12/02/88	$2,089,000	000	00/00/00	
	PINE HILL WD #8	91	112	01/10/89	$500,000	000	00/00/00	
	MONTICELLO WSI	91	112	02/17/89	$100,000	112	02/17/89	$300,000
	LAKE PROVIDENCE,TOW	92	112	02/17/89	$200,000	112	02/17/89	$300,000
	S BAYOU MACON WSI	91	112	12/19/88	$375,750	000	00/00/00	
MAINE	MILO TOWN OF	92	112	12/15/87	$530,000	000	00/00/00	
	SEARSPORT WATER	91	112	01/17/89	$729,740	112	01/17/89	$2,000,000
	JONESPORT TOWN OF	92	112	08/31/87	$838,600	112	08/31/87	$2,119,500
	OXFORD, TOWN OF	91	112	05/09/88	$625,000	000	00/00/00	
	CALAIS CITY OF	92	112	11/08/88	$2,810,000	000	00/00/00	
MARYLAND	HENDERSON, COMMISSI	91	112	09/19/88	$140,000	000	00/00/00	
	NORTH EAST, TOWN OF	91	112	06/09/88	$1,000,000	000	00/00/00	
	CRISFIELD, CITY OF	92	112	12/24/86	$294,600	000	00/00/00	
	BERLIN, TOWN OF	92	112	06/09/88	$1,865,000	000	00/00/00	
MASSACHUSETTS	MASHPEE WATER DISTR	91	112	01/18/89	$916,500	000	00/00/00	
	WEST STOCKBRIDGE, T	92	112	06/30/88	$465,780	000	00/00/00	
	WEST STOCKBRIDGE, T	92	112	06/30/88	$365,970	000	00/00/00	
	SALISBURY, TOWN OF	92	112	01/19/88	$369,800	000	00/00/00	

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	CHARLEMONT SEWER	92	112	11/21/88	$1,007,598	000	00/00/00	
	PALMER FIRE DISTRIC	91	112	08/10/88	$4,182,000	000	00/00/00	
	LEINO PARK WATER	91	112	02/14/89	$31,000	000	00/00/00	
MICHIGAN	BEAVERTON CITY OF	92	112	01/06/89	$960,000	112	01/06/89	$1,040,000
	FAIRHAVEN TOWNSHIP	92	112	11/19/87	$720,000	112	11/19/87	$880,000
	WEBBERVILLE VILL OF	91	112	05/13/88	$1,415,000	000	00/00/00	
	MINERAL HILLS,	92	112	12/27/88	$80,000	112	12/27/88	$165,000
	VICKSBURG VILLAGE	91	112	05/16/88	$1,262,000	000	00/00/00	
	BARRYTON,VILLAGE OF	92	112	07/17/87	$503,000	112	07/17/87	$797,000
	LEXINGTON VILLAGE	91	112	01/06/89	$2,000,000	000	00/00/00	
MINNESOTA	LAKE PARK CITY OF	91	112	06/20/88	$630,000	000	00/00/00	
	GRACEVILLE, CITY OF	91	112	09/28/88	$1,100,000	000	00/00/00	
	AMBOY, CITY OF	92	112	05/27/87	$460,000	112	00/00/00	
	GARRISON CITY OF	91	112	10/03/86	$166,875	112	10/03/86	$500,625
	ARGYLE CITY OF	92	112	09/21/87	$250,000	000	00/00/00	
	ADA CITY OF	91	112	06/01/87	$265,000	000	00/00/00	
	GOODRIDGE, CITY OF	91	112	09/22/87	$148,000	112	09/22/87	$446,000
	MARSHALL-POLK RURAL	91	112	01/16/87	$1,075,000	000	00/00/00	
	MORRISTOWN, CITY OF	91	112	01/19/88	$90,000	000	00/00/00	
	ROSEAU CITY OF	91	112	07/08/85	$148,200	000	00/00/00	
	ROSEAU CITY OF	92	112	07/08/86	$497,300	000	00/00/00	
	HOLDINGFORD, CITY O	92	112	02/16/88	$299,000	112	02/16/88	$30,000
	DONNELLY CITY OF	91	112	11/02/88	$197,000	000	00/00/00	
	PERHAM, CITY OF	92	112	02/11/88	$1,000,000	000	00/00/00	
	LAKE ST CROIX	91	112	04/01/85	$1,426,250	000	00/00/00	
	LAKE ST CROIX	91	112	04/01/85	$1,426,250	000	00/00/00	
	WAVERLY, CITY OF	92	112	01/26/88	$976,000	000	00/00/00	
MISSISSIPPI	BOYLE SKENE WATER	91	112	11/30/88	$1,387,500	000	00/00/00	
	SHONGALO RURAL	91	112	04/28/86	$51,500	112	04/28/86	$136,500
	NEW HOULKA TOWN OF	93	112	12/29/88	$113,000	000	00/00/00	
	ENTERPRISE TOWN OF	91	112	01/15/88	$433,000	000	00/00/00	
	COPIAH WATER	91	112	07/25/88	$359,000	000	00/00/00	
	COPIAH WATER ASSN	91	112	07/25/88	$359,000	000	00/00/00	
	DAYS WATER ASS'N IN	91	112	10/07/88	$300,000	000	00/00/00	
	EDWARDS TOWN OF	91	112	07/29/88	$150,000	000	00/00/00	
	LEBANON WATER	91	112	09/30/87	$127,000	112	09/30/87	$132,000
	LEXINGTON, CITY OF	91	112	05/21/85	$339,455	000	00/00/00	
	MANTACHIE TOWN OF	91	112	10/07/88	$53,000	000	00/00/00	
	TALLAHALA WATER	91	112	11/30/88	$160,000	000	00/00/00	
	DEKALB TOWN OF	92	112	07/15/88	$49,000	000	00/00/00	
	NORTH LAUDERDALE	91	112	11/28/88	$485,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
	TOOMSUBA WATER	91	112	11/28/88	$137,000	000	00/00/00	
	PILGRIM REST WATER	91	112	12/13/88	$140,000	000	00/00/00	
	PLANTERSVILLE	92	112	01/17/89	$100,000	000	00/00/00	
	EAST MADISON WATER	91	112	06/06/88	$300,000	000	00/00/00	
	POPLAR CREEK WATER	91	112	08/23/88	$201,700	112	08/23/88	$528,800
	KENTAWKA VALLEY WTR	91	112	11/10/87	$369,711	000	00/00/00	
	TOCCOPOLA WATER	91	112	02/25/87	$10,000	112	02/25/87	$10,000
	LEESBURG WATER ASSN	91	112	04/11/88	$540,000	000	00/00/00	
	A C L WATER	91	112	02/23/88	$190,000	000	00/00/00	
	CLEARY HEIGHTS WTR	91	112	04/22/88	$350,000	000	00/00/00	
	BUCKATUNNA WATER WO	91	112	08/01/88	$169,800	112	08/01/88	$122,000
MISSOURI	BUTLER CO PWSD 104	91	112	02/17/88	$252,000	112	02/17/88	$1,204,941
	GRANDIN CITY OF	92	112	01/25/88	$25,000	112	01/25/88	$75,000
	CREIGHTON CITY OF	91	112	11/03/88	$160,000	112	11/03/88	$307,000
	CLEVER CITY OF	91	112	12/14/88	$177,600	112	12/14/88	$128,100
	URBANA, CITY OF	91	112	12/20/88	$88,100	112	12/20/88	$172,500
	DEKALB CO, PWSD #1	91	112	11/02/88	$1,176,800	000	00/00/00	
	DEKALB CO, PWSD #1	91	112	11/02/88	$669,500	112	11/02/88	$587,500
	DUNKLIN CO, PWSD #1	91	112	05/04/88	$75,000	112	05/04/88	$75,000
	BRAGG CITY, CITY OF	92	112	02/01/88	$74,000	112	02/01/88	$127,000
	FAIR GROVE, CITY OF	92	112	01/24/89	$1,624,908	000	00/00/00	
	FOREST CITY, CITY O	92	112	11/04/88	$252,500	112	11/04/88	$494,600
	PINEVILLE, CITY OF	91	112	12/21/88	$172,500	112	12/21/88	$36,500
	FAIRVIEW, CITY OF	92	112	01/04/89	$71,300	112	01/04/89	$608,700
	GOODMAN, CITY OF	92	112	11/16/88	$173,000	112	11/16/88	$148,200
	PUTNAM CO, PWSD #1	91	112	02/15/89	$267,600	112	02/15/89	$1,088,500
	MINERAL POINT	91	112	12/10/87	$271,934	112	12/10/87	$221,201
MONTANA	WEST YELLOWSTONE,	92	112	03/10/87	$1,651,500	000	00/00/00	
	PARK COUNTY REFUSE	92	112	07/18/86	$2,800,000	000	00/00/00	
NEBRASKA	SAUNDERS COUNTY #6	92	112	06/12/84	$140,500	000	00/00/00	
	SAUNDERS COUNTY #6	92	112	06/12/84	$140,500	000	00/00/00	
	RUSHVILLE, CITY OF	91	112	08/11/86	$332,600	112	08/11/86	$59,000
NEW JERSEY	PEMBERTON TWP WD #1	91	112	01/19/88	$888,600	000	00/00/00	
	MIDDLE TOWNSHIP	91	112	12/05/88	$675,000	000	00/00/00	
	SWEDESBORO,BORO OF	91	112	01/09/89	$1,000,000	000	00/00/00	
	PINE HILL BOR MUA	91	112	01/09/89	$800,000	000	00/00/00	
	GIBBSBORO, BORO OF	92	112	02/10/89	$2,950,000	000	00/00/00	
NEW MEXICO	SUNLAND PARK CITY	91	112	08/16/87	$1,908,000	000	00/00/00	
	COYOTA MDWA	91	112	11/30/87	$300,000	000	00/00/00	
	LOWER VALLEY WATER	91	112	05/04/88	$920,000	000	00/00/00	
	BOSQUE FARMS,	91	112	08/12/86	$1,500,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
NEW YORK	PORT BYRON VILLAGE	91	112	02/07/89	$250,000	000	00/00/00	
	POMFRET TOWN	92	112	02/09/89	$306,000	000	00/00/00	
	SILVER CREEK VIL OF	91	112	01/03/89	$850,000	112	01/03/89	$750,000
	HOBART VILLAGE OF	92	112	12/09/88	$4,070,000	000	00/00/00	
	AURORA TOWN OF	91	112	02/08/89	$1,322,300	000	00/00/00	
	JOHNSTOWN TOWN OF	91	112	10/05/88	$390,000	000	00/00/00	
	ATHENS	91	112	01/30/89	$1,300,000	000	00/00/00	
	MCCONNELLSVILLE, VI	91	112	01/27/89	$327,000	000	00/00/00	
	SHELBY TOWN OF	91	112	12/02/88	$112,400	000	00/00/00	
	CLEVELAND VIL OF	92	112	09/12/88	$1,500,000	112	09/12/88	$600,000
	STILLWATER VILLAGE	92	112	01/19/89	$1,100,000	000	00/00/00	
	WYOMING VILLAGE OF	91	112	01/03/89	$175,000	000	00/00/00	
NORTH CAROLINA	ALEXANDER COUNTY/	91	112	05/09/88	$2,500,000	000	00/00/00	
	CALABASH, TOWN OF	91	112	03/31/87	$131,000	000	00/00/00	
	HARKERS ISLAND	92	112	03/10/87	$2,418,000	000	00/00/00	
	HARKERS ISLAND	92	112	03/10/87	$1,482,000	000	00/00/00	
	BRUNSWICK, TOWN OF	91	112	04/21/88	$225,000	000	00/00/00	
	PEMBROKE WATER &	92	112	10/27/86	$1,660,384	000	00/00/00	
	LINDEN, TOWN OF	91	112	06/10/88	$701,000	000	00/00/00	
	NEWTON GROVE TOWN	92	112	04/21/88	$2,097,000	000	00/00/00	
NORTH DAKOTA	NORTH VALLEY WATER	91	112	03/07/88	$560,000	000	00/00/00	
OKLAHOMA	STRINGTOWN PWA	91	112	11/01/88	$60,000	112	11/01/88	$180,000
	BINGER PWA	92	112	12/09/88	$80,000	000	00/00/00	
	ARAPAHO PWA	92	112	01/11/84	$120,500	000	00/00/00	
	LINCOLN CO RWD #3	91	112	01/09/89	$83,900	112	01/09/89	$6,100
	LOGAN RWS&SWMD #1	92	112	08/12/88	$200,000	140	06/22/88	$100,000
	JENNINGS PWA	92	112	01/09/89	$110,000	112	01/09/89	$85,000
	EARLSBORO PWA	92	112	11/08/88	$80,000	112	11/08/88	$435,000
OREGON	MT VERNON CITY OF	91	112	01/17/89	$112,000	000	00/00/00	
	GRANITE, CITY OF	91	112	02/27/89	$22,250	112	02/27/89	$66,750
	ODELL SANITARY	92	112	02/16/89	$71,000	112	02/16/89	$54,000
	MT ANGEL, CITY OF	92	112	02/08/89	$880,000	000	00/00/00	
	JOSEPH CITY OF	91	112	02/09/89	$476,900	112	02/09/89	$1,430,700
PENNSYLVANIA	SMETHPORT AUTHORITY	92	112	04/13/88	$467,000	112	04/13/88	$182,000
	CHERRY TOWNSHIP	92	112	04/11/88	$682,300	112	04/11/88	$656,700
	LOGANVILLE	92	112	03/10/87	$2,600,000	000	00/00/00	
SOUTH CAROLINA	BREEZY HILL WATER &	91	112	06/15/88	$1,800,000	000	00/00/00	
	BROADWAY W&S DIST	91	112	03/21/89	$110,000	000	00/00/00	
	HOLLYWOOD, TOWN OF	92	112	04/29/86	$1,737,500	112	04/29/86	$1,737,500
	FOLLY BEACH,CITY OF	92	112	02/16/89	$100,000	000	00/00/00	
	JOHNSONVILLE, TOWN	91	112	07/19/88	$290,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	JOHNSONVILLE, TOWN	92	112	11/17/88	$184,500	000	00/00/00	
	BROWN'S FERRY WATER	91	112	02/21/89	$133,000	000	00/00/00	
	BRUNSON,TOWN OF	92	112	02/16/89	$259,000	000	00/00/00	
	MARCO WTR CO., INC.	91	112	11/18/88	$1,060,000	000	00/00/00	
	STUCKEY, TOWN OF	91	112	09/14/88	$97,115	000	00/00/00	
SOUTH DAKOTA	WILLOW LAKE, CITY O	92	112	12/23/88	$90,000	000	00/00/00	
	FAITH CITY OF	91	112	11/06/80	$132,000	000	00/00/00	
	TOWN OF WALL	91	112	07/22/88	$118,250	000	00/00/00	
TENNESSEE	CEDAR GROVE UTILITY	91	112	11/30/88	$45,000	000	00/00/00	
	MCEWEN CITY OF*	91	112	03/03/89	$300,000	000	00/00/00	
	CUMBERLAND HEIGHTS	91	112	03/10/88	$700,000	000	00/00/00	
TEXAS	ATASCOSA CO WCID #1	91	112	01/17/85	$114,000	112	01/17/85	$342,100
	ATASCOSA CO WCID #1	92	112	01/17/85	$76,100	112	01/17/85	$228,200
	ELMENDORF CITY OF	91	112	02/10/86	$273,230	000	00/00/00	
	EAST CENTRAL WATER	91	112	06/05/86	$1,175,000	000	00/00/00	
	MILITARY HWY WSC	91	112	01/16/87	$429,000	112	01/16/87	$1,221,000
	GUM CREEK WSC	91	112	04/03/87	$300,000	000	00/00/00	
	DEAN DALE WSC	91	112	04/18/88	$800,000	000	00/00/00	
	UPPER LEON RIVER	91	112	09/21/87	$500,000	000	00/00/00	
	SOUTH ELLIS WSC	91	112	07/27/87	$706,000	000	00/00/00	
	LEDBETTER WSC	91	112	07/24/86	$230,000	000	00/00/00	
	ELLINGER SEWER	91	112	12/05/88	$55,000	101	08/26/88	$55,000
	SOUTH FRANKLIN WSC	91	112	03/11/87	$1,500,000	000	00/00/00	
	GONZALES CO WSC	91	112	01/06/86	$251,500	112	01/06/86	$251,500
	ELYSIAN FIELDS WSC	91	112	08/15/85	$350,000	000	00/00/00	
	PAINT CREEK WATER	91	112	11/12/86	$513,000	000	00/00/00	
	WEST CEDAR CREEK	91	112	06/03/87	$768,000	000	00/00/00	
	BIROME WSC	91	112	10/01/86	$300,000	000	00/00/00	
	GASTONIA SCURRY WSC	91	112	09/04/85	$790,000	000	00/00/00	
	ABLES SPRINGS WATER	91	112	07/31/87	$900,000	000	00/00/00	
	TARKINGTON WSC	91	112	03/13/87	$300,000	000	00/00/00	
	PRAIRIE HILL WSC	91	112	06/01/87	$300,000	000	00/00/00	
	H&H WSC	91	112	10/01/86	$350,000	000	00/00/00	
	R M S WSC	91	112	06/14/88	$310,000	000	00/00/00	
	MADISON CO. WSC	91	112	01/20/89	$250,000	000	00/00/00	
	SPLENDORA CITY OF	92	112	01/27/84	$956,400	000	00/00/00	
	SPLENDORA CITY OF	92	112	01/27/84	$351,600	000	00/00/00	
	HOLLANDS QUARTERS	91	112	09/10/87	$200,000	000	00/00/00	
	CHURCH HILL WSC	91	112	06/11/85	$150,000	000	00/00/00	
	SAN SABA CITY OF	92	112	11/25/85	$850,000	000	00/00/00	
	WRIGHT CITY WSC	91	112	03/20/87	$198,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	SPOFFORD, CITY OF	91	112	11/10/87	$85,000	112	11/10/87	$85,000
	MACBEE WSC	91	112	07/31/87	$3,275,000	000	00/00/00	
	PINE PRAIRIE WSC	91	112	07/29/85	$150,000	000	00/00/00	
	PHELPS WSC	91	112	01/30/86	$615,000	000	00/00/00	
	G & W WATER SUPPLY	91	112	07/07/88	$900,000	000	00/00/00	
	CENTRAL WASHINGTON	91	112	08/18/88	$3,500,000	000	00/00/00	
	POTH, CITY OF	92	112	12/19/88	$176	000	00/00/00	
	ZAPATA COUNTY WCID	91	112	12/18/86	$426,600	000	00/00/00	
	ZAPATA COUNTY WCID	92	112	12/18/86	$184,400	000	00/00/00	
UTAH	CLARKSTON TOWN	91	112	10/04/88	$61,700	112	10/04/88	$75,300
VERMONT	RICHFORD, VILLAGE O	91	112	10/31/88	$1,375,000	112	10/31/88	$500,000
WASHINGTON	PENN COVE PARK	92	112	08/26/88	$245,000	000	00/00/00	
	ROY, CITY OF	91	112	01/06/89	$70,000	000	00/00/00	
	PUD #1 OF STEVENS C	92	112	02/07/89	$4,000,000	000	00/00/00	
	LUMMI INDIAN	91	112	01/10/89	$25,250	112	01/10/89	$75,750
	BEVERLY WATER DIST	91	112	02/07/89	$49,000	112	02/07/89	$155,000
WEST VIRGINIA	CENTURY VOLGA	91	112	04/21/87	$50,000	112	04/21/87	$184,000
	MT ZION PUBLIC	92	112	07/17/87	$25,000	112	07/17/87	$99,250
	MT ZION PUBLIC	92	112	07/17/87	$25,000	112	07/17/87	$49,625
	SHORT LINE PUBLIC	91	112	10/24/88	$130,000	000	00/00/00	
	RIPLEY, CITY OF	91	112	11/18/88	$528,830	000	00/00/00	
	RIPLEY, CITY OF	91	112	11/18/88	$528,830	000	00/00/00	
	RIPLEY, CITY OF	92	112	11/18/88	$528,830	000	00/00/00	
	SOUTHERN JACKSON CO	91	112	06/24/85	$291,350	000	00/00/00	
	WEST DUNBAR PSD	92	112	12/13/88	$40,000	112	12/13/88	$49,000
	MANNINGTON, CITY OF	91	112	11/01/88	$2,000,000	112	11/01/88	$600,000
	IDAMAY PSD	92	112	07/22/87	$456,315	000	00/00/00	
	FRANKFORT PUBLIC	91	112	01/05/89	$2,657,000	000	00/00/00	
	VALLEY GROVE, TOWN	92	112	08/05/88	$332,300	000	00/00/00	
	MASONTOWN, TOWN OF	92	112	10/15/88	$1,730,604	000	00/00/00	
	SOUTH PUTNAM PUBLIC	91	112	03/30/88	$1,500,000	000	00/00/00	
	BUFFALO, TOWN OF	92	112	12/19/88	$735,970	112	12/19/88	$50,000
	RALEIGH COUNTY PSD	91	112	01/25/82	$596,400	112	01/25/82	$844,600
	LESTER, TOWN OF	92	112	10/31/88	$723,200	112	10/31/88	$300,000
	LEADSVILLE PUBLIC	91	112	12/08/88	$540,000	112	12/08/88	$360,000
	SPENCER, CITY OF	91	112	02/10/88	$985,000	000	00/00/00	
	WALTON PUBLIC	91	112	10/31/88	$80,000	112	10/31/88	$137,500
	GANDEEVILLE PSD	91	112	12/02/86	$534,300	112	12/02/86	$534,300
	PINE GROVE, TOWN OF	92	112	06/06/88	$284,152	112	06/06/88	$264,000
	CLAYWOOD PARK	91	112	11/29/88	$685,000	000	00/00/00	
	CENTRAL BOAZ PUBLIC	91	112	08/01/88	$50,000	112	08/01/88	$47,000

STATE NAME -----	BORROWER NAME --------	FUND CODE ----	LOAN STAT ----	LOAN STAT DATE ----	LOAN AMOUNT ------	GRANT STAT -----	GRANT STAT DATE -----	GRANT AMOUNT ------
WISCONSIN	POYGAN, TOWN OF SD	92	112	01/25/89	$1,081,275	000	00/00/00	
CALIFORNIA	KINGSBURG REDEVELOP	91	120	07/17/87	$800,000	000	00/00/00	
	FOWLER, CITY OF	91	120	03/03/87	$780,000	000	00/00/00	
	MENDOTA, CITY OF	91	120	10/21/87	$766,000	000	00/00/00	
	FRESNO COUNTY	91	120	01/04/88	$525,000	000	00/00/00	
	FRESNO COUNTY	91	120	03/10/88	$501,500	120	03/10/88	$612,800
	NORTH PARK MUTUAL W	91	120	09/16/86	$117,100	120	09/16/86	$246,600
	DONEY STREET	91	120	09/16/86	$20,000	120	09/16/86	$82,800
	SOUTH DOS PALOS	92	120	05/12/87	$82,980	120	05/12/87	$185,820
	SOUTH DOS PALOS	92	120	05/12/87	$82,980	120	05/12/87	$185,820
	FRANKLIN CWD	92	120	11/06/87	$400,000	000	00/00/00	
	GREENFIELD, CITY OF	91	120	04/20/87	$500,000	000	00/00/00	
	CENTERVILLE CSD	91	120	09/04/87	$1,225,100	000	00/00/00	
	DUNSMUIR, CITY OF	92	120	05/09/88	$161,000	000	00/00/00	
	CROWS LANDING CSD	91	120	05/03/88	$726,156	000	00/00/00	
	LIVE OAK, CITY OF	92	120	11/06/85	$275,000	000	00/00/00	
	GERBER/LAS FLORES C	92	120	02/05/88	$975,000	000	00/00/00	
COLORADO	PENROSE WATER	91	120	12/08/88	$1,250,000	000	00/00/00	
	SNYDER SANITATION	92	120	03/02/87	$180,000	000	00/00/00	
	BOGGS CREEK WATER	91	120	01/08/86	$1,000,000	120	01/08/86	$531,800
	SILVERTON, TOWN OF	92	120	01/23/89	$274,950	000	00/00/00	
	LOCHBUIE, TOWN OF	91	120	08/31/88	$1,313,700	000	00/00/00	
	GILCREST, TOWN OF	91	120	11/28/88	$300,000	000	00/00/00	
	GALETON CIVIC ASSN.	92	120	02/19/88	$72,000	120	02/19/88	$80,000
IOWA	RATHBUN REGIONAL	91	120	02/02/89	$8,700,000	000	00/00/00	
	MARNE, CITY OF	91	120	02/02/89	$81,000	120	02/02/89	$82,500
	MURRAY, CITY OF	91	120	02/02/89	$95,000	000	00/00/00	
	VAN WERT, CITY OF	91	120	02/02/89	$100,000	120	02/02/89	$228,000
	GRAND RIVER, CITY	91	120	02/02/89	$93,500	120	02/02/89	$128,900
	WELDON, CITY OF	91	120	02/02/89	$93,500	120	02/02/89	$142,100
	DECATUR CITY, CITY	92	120	02/02/89	$152,300	120	02/02/89	$438,600
	OLLIE, CITY OF	92	120	05/22/86	$151,300	120	05/22/86	$422,200
	ROSE HILL, CITY OF	92	120	02/02/89	$170,300	120	02/02/89	$300,000
	BUSSEY, CITY OF	92	120	02/02/89	$525,000	120	02/02/89	$445,000
	HARVEY, CITY OF	92	120	02/02/89	$100,000	120	02/02/89	$13,000
	DIAGONAL, CITY OF	91	120	02/02/89	$100,000	120	02/02/89	$147,000
	CHELSEA, CITY OF	92	120	02/02/89	$180,000	000	00/00/00	
	CONWAY, CITY OF	91	120	06/07/88	$34,000	000	00/00/00	
	LENOX UTILITY BOARD	91	120	03/06/89	$453,000	000	00/00/00	
	MALOY, CITY OF	91	120	02/02/89	$79,000	000	00/00/00	
	ST. MARYS, CITY OF	92	120	02/02/89	$130,000	000	00/00/00	
	LINEVILLE, CITY OF	92	120	02/02/89	$288,200	120	02/02/89	$288,200

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KANSAS	GREELEY, CITY OF	91	120	06/25/87	$90,000	000	00/00/00	
	ELGIN, CITY OF	91	120	06/06/88	$311,086	000	00/00/00	
	MARION CO IMPROVEMT	91	120	01/26/87	$289,000	120	01/26/87	$246,000
	SHAWNEE #7 RWD	91	120	01/11/88	$175,000	000	00/00/00	
LOUISIANA	KINDER TOWN OF	92	120	12/05/87	$155,000	000	00/00/00	
	PLAUCHEVILLE VILLAG	91	120	07/26/88	$581,000	000	00/00/00	
	BRYCELAND VILLAG OF	91	120	07/13/88	$150,000	000	00/00/00	
	ALBERTA WATER	91	120	08/03/88	$500,000	000	00/00/00	
	SPRINGHILL COM WD	91	120	11/08/85	$310,000	000	00/00/00	
	GREENWOOD COMMUNITY	91	120	01/27/87	$1,500,000	000	00/00/00	
	CADDO WWD # 7	91	120	08/09/88	$90,000	000	00/00/00	
	COLUMBIA TOWN OF	91	120	05/18/88	$269,374	120	05/18/88	
	VIXEN WATER SYS INC	91	120	06/07/88	$60,000	000	00/00/00	
	TOWN OF JENA	92	120	03/07/89	$1,900,000	000	00/00/00	
	LAKESIDE SEWERAGE D	92	120	01/28/84	$110,000	000	00/00/00	
	VILLE PLATTE TOWN	92	120	01/30/88	$1,541,000	000	00/00/00	
	WISNER TOWN OF	92	120	07/14/88	$165,663	000	00/00/00	
	POLLOCK AREA WATER	91	120	01/12/88	$200,000	000	00/00/00	
	POLLOCK TOWN OF	92	120	01/12/88	$132,000	000	00/00/00	
	WEST GRANT WSI	91	120	03/25/87	$696,000	000	00/00/00	
	MID GRANT W ASSOC	91	120	12/20/85	$300,000	000	00/00/00	
	WHITE CASTLE, TOWN	92	120	10/06/88	$1,200,000	000	00/00/00	
	JEFFERSON PARISH	92	120	08/18/87	$2,500,000	000	00/00/00	
	URANIA TOWN OF	92	120	08/03/84	$383,750	000	00/00/00	
	LASALLE SD #1	92	120	08/16/84	$717,000	000	00/00/00	
	MT OLIVE WATERWORKS	91	120	07/26/88	$150,000	000	00/00/00	
	SIMSBORO VILLAGE OF	91	120	01/27/87	$812,000	000	00/00/00	
	DELTA VILLAGE OF	91	120	09/01/88	$142,000	000	00/00/00	
	OAK RIDGE, VILLAGE	91	120	05/17/88	$400,000	000	00/00/00	
	SANDY POINT 480 WSI	91	120	04/09/87	$364,500	120	04/09/87	$585,500
	EAST SIDE UTILITIES	91	120	01/27/87	$39,000	120	01/27/87	$111,000
	RICHWOOD TOWN OF	91	120	03/15/88	$246,000	120	03/15/88	$559,000
	RICHWOOD TOWN OF	92	120	06/16/88	$150,000	000	00/00/00	
	POINTE COUPEE SD #1	92	120	09/29/88	$157,000	120	09/29/88	$443,000
	PC PARISH SD #4	92	120	06/23/88	$1,290,000	000	00/00/00	
	BALL TOWN OF	92	120	10/14/87	$825,500	000	00/00/00	
	SIEPER AREA WATER	91	120	03/24/87	$200,000	000	00/00/00	
	BOYCE TOWN OF	91	120	12/05/87	$785,700	000	00/00/00	
	LECOMPTE, TOWN OF	91	120	04/26/88	$522,000	000	00/00/00	
	WARD 6 WATER SYSTEM	91	120	04/26/88	$1,629,280	000	00/00/00	
	START WATER SYSTEM	91	120	05/17/88	$450,000	120	05/17/88	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	EBARB WATER WORKS	91	120	08/12/88	$1,900,000	000	00/00/00	
	CATAHOULA WATER	91	120	03/15/89	$209,000	000	00/00/00	
	PEARL RIVER, TOWN	91	120	04/11/88	$850,000	000	00/00/00	
	EASTERN HEIGHTS W W	91	120	10/12/88	$472,882	000	00/00/00	
	HUSSER-LORANGER WD	91	120	01/27/87	$250,000	120	01/27/87	$500,000
	TANGIPAHOA WW DIST8	91	120	08/09/88	$1,654,551	000	00/00/00	
	POINT WILHITE WATER	91	120	06/07/88	$343,000	000	00/00/00	
	CORNEY WATER SYSTEM	91	120	06/07/88	$28,000	000	00/00/00	
	MAGNOLIA PLANTATION	92	120	03/26/87	$666,000	000	00/00/00	
	MAGNOLIA PLANTATION	91	120	03/25/87	$660,000	000	00/00/00	
	VERMILION PARISH	91	120	04/01/87	$6,000,000	000	00/00/00	
	ROSEPINE VILLAGE OF	91	120	04/26/88	$250,000	000	00/00/00	
	EAST CENTRAL WSI	91	120	09/16/85	$2,500,000	000	00/00/00	
	S VERNON PAR WWD #1	91	120	11/08/85	$2,175,000	000	00/00/00	
MICHIGAN	GRAYLING CITY OF	92	120	07/26/88	$1,252,392	000	00/00/00	
	CALUMET TOWNSHIP	92	120	04/27/88	$564,575	000	00/00/00	
	HOLLY, VILLAGE OF	91	120	02/19/88	$750,000	000	00/00/00	
MISSOURI	BUTTERFIELD VILLAGE	91	120	03/01/88	$35,000	120	03/01/88	$68,000
	SELIGMAN CITY OF	92	120	06/02/88	$225,000	120	06/02/88	$1,555,900
	CLARK CO CONSOL NO1	91	120	09/09/88	$400,000	120	09/09/88	$400,000
	DAVIESS COUNTY PWSD	91	120	05/10/88	$850,000	000	00/00/00	
	CHARITON & LINN, #3	91	120	06/15/87	$3,145,000	000	00/00/00	
	LIVINGSTON, PWSD #4	91	120	06/15/87	$567,000	000	00/00/00	
	WATER & WASTE AUTHO	92	120	11/05/87	$580,000	000	00/00/00	
	CLARENCE CANNON WHO	91	120	03/04/86	$2,868,000	000	00/00/00	
	NEW MADRID PWSD # 5	91	120	01/15/88	$1,236,600	120	01/15/88	$3,208,825
	RANDOLPH CO, PWSD 1	91	120	03/04/88	$1,578,000	000	00/00/00	
	RANDOLPH CO, PWSD 1	91	120	03/04/88	$2,259,000	000	00/00/00	
	SCHUYLER CO PWSD #1	91	120	09/27/88	$3,200,000	000	00/00/00	
NEBRASKA	SALEM VILLAGE OF	92	120	01/27/86	$80,000	120	01/27/86	$71,000
NEW JERSEY	PEMBERTON BOROUGH	91	120	05/18/88	$345,000	000	00/00/00	
	PEMBERTON BOROUGH	92	120	05/18/88	$208,000	000	00/00/00	
NORTH DAKOTA	MCLEAN-SHERIDAN	91	120	08/11/88	$937,500	120	08/11/88	$2,812,500
	RICHLAND RURAL	91	120	10/26/88	$641,900	000	00/00/00	
	MILNOR, CITY OF	91	120	10/26/88	$240,500	000	00/00/00	
OHIO	JACKSONVILLE VLG OF	91	120	05/26/88	$341,000	120	05/26/88	$309,000
	BELMONT COUNTY	91	120	02/14/89	$2,450,000	000	00/00/00	
	GEORGETOWN, VLG. OF	91	120	09/16/88	$1,800,000	000	00/00/00	
	WATER ASSOCIATION,	91	120	12/01/88	$3,000,000	000	00/00/00	
	TATE MONROE WATER	91	120	02/28/89	$1,700,000	000	00/00/00	
	DEL-CO WATER CO INC	91	120	03/23/88	$4,000,000	000	00/00/00	
	GUERNSEY COUNTY	91	120	09/07/88	$250,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
	HOCKING COUNTY	92	120	02/16/88	$224,000	120	02/16/88	$254,000
	SWITZER WATER	91	120	02/01/88	$338,000	120	02/01/88	$113,000
	CANDLEWOOD UTILITIE	91	120	08/29/88	$850,000	000	00/00/00	
	MUSKINGUM COUNTY	92	120	07/18/88	$196,000	120	07/18/88	$162,000
	OTTAWA COUNTY	92	120	05/23/88	$4,000,000	000	00/00/00	
	ROSS COUNTY WATER	91	120	02/09/88	$4,966,000	120	02/09/88	$856,000
	CLARKSBURG, VLG OF	92	120	02/21/89	$185,000	120	02/21/89	$114,000
	SCIOTO COUNTY	92	120	03/02/89	$335,000	120	03/02/89	$348,000
	WILLSHIRE, VLG OF	92	120	06/08/88	$636,000	120	06/08/88	$435,000
	LITTLE HOCKING	91	120	09/09/88	$1,192,000	120	09/09/88	$397,000
	RITTMAN, CITY OF	92	120	11/04/87	$6,000,000	120	11/04/87	$1,250,000
OREGON	FALCON-COVE BEACH	91	120	02/16/88	$65,000	000	00/00/00	
	SISTERS CITY OF	92	120	08/21/86	$418,335	120	08/21/86	$341,900
PENNSYLVANIA	BEDFORD-FULTON-HUNT	92	120	09/07/88	$5,000,000	000	00/00/00	
	PORT MATILDA	92	120	12/08/86	$472,370	120	12/08/86	$77,000
	PORT MATILDA	92	120	12/08/86	$472,370	120	12/08/86	$77,000
	DENVER, BOROUGH OF	92	120	09/06/88	$1,550,000	000	00/00/00	
	MIDDLEBURG	91	120	02/04/88	$441,000	000	00/00/00	
	EAGLES MERE BOROUGH	92	120	11/17/87	$1,030,751	120	11/17/87	$1,250,000
	CONEWAGO TOWNSHIP	92	120	09/06/88	$3,414,800	000	00/00/00	
SOUTH DAKOTA	HANSON RURAL WATER	91	120	05/03/88	$195,000	000	00/00/00	
TENNESSEE	BEAN STATION	91	120	06/15/88	$199,850	000	00/00/00	
	LUTTRELL TOWN OF	92	120	01/26/88	$198,971	120	01/26/88	$496,427
	BIG CREEK	91	120	07/25/88	$100,000	120	07/25/88	$100,000
	TENNESSEE RIDGE	91	120	04/29/88	$197,000	120	04/29/88	$200,000
	WAVERLY CITY OF	91	120	08/17/88	$75,000	120	08/17/88	$75,000
	JACKSON COUNTY	91	120	11/01/88	$12,900	120	11/01/88	$38,700
	LIVINGSTON TOWN OF	91	120	01/17/89	$470,000	000	00/00/00	
	BAXTER TOWN OF	92	120	11/01/88	$233,353	120	11/01/88	$250,000
	BANGHAM UTILITY	91	120	11/01/88	$19,865	120	11/01/88	$59,325
	BLUFF CITY CITY OF	91	120	09/21/87	$475,000	000	00/00/00	
	BRIGHTON TOWN OF	92	120	03/28/88	$276,263	000	00/00/00	
TEXAS	AUSTIN CO. WSC	91	120	01/28/88	$250,000	000	00/00/00	
	RIO HONDO CITY OF	92	120	09/21/87	$150,000	120	09/21/87	$450,000
	COLORADO COUNTY W.C	91	120	06/27/88	$150,000	000	00/00/00	
	BIGFOOT WSC	91	120	02/03/88	$300,000	000	00/00/00	
	STARR WSC	91	120	10/01/88	$583,300	000	00/00/00	
	CONCORD ROBBINS WSC	91	120	02/04/88	$200,000	000	00/00/00	
	RIO WATER SUPPLY	91	120	07/24/87	$205,500	120	07/24/87	$205,500
	GLENDALE WSC	91	120	06/12/86	$101,205	000	00/00/00	
	PRITCHETT WSC	91	120	09/14/87	$750,000	000	00/00/00	

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VERMONT	ROYALTON FIRE	91	120	03/20/89	$700,000	120	03/20/89	$250,000
	WASHINGTON FIRE DIS	91	120	02/13/89	$95,600	120	02/13/89	$230,000
	FAIRFIELD FIRE	91	120	03/08/89	$150,000	120	03/08/89	$196,690
WASHINGTON	CRESCENT WATER ASSN	91	120	06/15/87	$350,000	000	00/00/00	
	GRAND COULEE CITY	91	120	07/21/88	$382,000	000	00/00/00	
	LANGLEY, CITY OF	92	120	03/13/89	$619,100	120	03/13/89	$630,900
	MANSFIELD, TOWN OF	91	120	02/23/89	$375,200	120	02/23/89	$584,800
WYOMING	BURLINGTON, TOWN OF	92	120	02/23/89	$60,000	120	02/23/89	$237,000
	WEST RIVER ROAD IMP	91	120	02/15/89	$351,884	120	02/15/89	$338,085
ARKANSAS	HAMBURG, CITY OF	92	130	12/31/86	$178,920	000	00/00/00	
	HAMBURG, CITY OF	92	130	12/31/86	$76,680	000	00/00/00	
	PARKDALE, CITY OF	91	130	11/20/85	$50,000	000	00/00/00	
	FOUNTAIN PRAIRIE	91	130	02/11/85	$117,000	130	02/11/85	$458,000
	BIG FLAT, TOWN OF	91	130	05/15/85	$157,000	130	05/15/85	$258,390
	HWY 94 - HORSESHOE	91	130	06/25/87	$286,000	000	00/00/00	
	ALPENA, CITY OF	91	130	08/23/85	$150,000	000	00/00/00	
	BANKS, TOWN OF	92	130	09/12/88	$88,200	000	00/00/00	
	BANKS, TOWN OF	92	130	09/12/88	$37,800	000	00/00/00	
	BRADLEY CO RURAL	91	130	04/01/87	$431,000	130	04/01/87	$405,000
	WARREN CITY OF	92	130	12/29/86	$3,430,000	000	00/00/00	
	WARREN CITY OF	92	130	12/29/86	$1,470,000	000	00/00/00	
	INDIAN SWITCH WATER	91	130	09/12/88	$450,000	000	00/00/00	
	LAKE VILLAGE, CITY	92	130	02/02/87	$786,100	000	00/00/00	
	LAKE VILLAGE, CITY	92	130	02/02/87	$336,900	000	00/00/00	
	AMITY, TOWN OF	91	130	02/11/86	$1,347,600	130	02/11/86	$1,438,400
	CADDO VALLEY,	92	130	03/18/87	$193,550	130	03/18/87	$161,400
	CADDO VALLEY,	92	130	03/18/87	$82,950	130	03/18/87	$69,100
	WHELEN SPRINGS,	91	130	10/11/85	$137,000	130	10/11/85	$307,318
	WESTERN CLAY COUNTY	91	130	03/02/87	$700,000	130	03/02/87	$1,000,000
	PEACH ORCHARD, TOWN	92	130	04/15/87	$82,173	130	04/15/87	$82,173
	COMMUNITY WATER	91	130	08/04/87	$1,690,000	000	00/00/00	
	TUMBLING SHOALS	91	130	10/15/86	$259,500	130	10/15/86	$434,300
	JOHN'S POCKET WATER	91	130	04/05/88	$308,972	000	00/00/00	
	KINGSLAND, CITY OF	92	130	05/28/85	$140,000	130	05/28/85	$60,000
	KINGSLAND, CITY OF	92	130	05/28/85	$86,800	130	05/28/85	$37,200
	OUTSIDE KINGSLAND	91	130	08/29/88	$309,344	130	08/29/80	$383,128
	WALDO, CITY OF	91	130	10/15/86	$92,400	000	00/00/00	
	TAYLOR, CITY OF	91	130	06/27/84	$150,000	130	06/27/84	$440,000
	LAKESIDE WATER	91	130	06/27/85	$1,182,000	130	06/27/85	$1,770,000
	PLUMERVILLE, CITY	92	130	12/30/87	$171,385	000	00/00/00	
	CASH, TOWN OF	92	130	03/26/86	$126,000	130	03/26/86	$197,900
	CASH, TOWN OF	92	130	03/26/86	$54,000	130	03/26/86	$84,800

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	ST. FRANCIS RIVER R	91	130	05/05/87	$2,500,000	130	05/05/87	$2,880,000
	HWY 71 WATER USERS	91	130	11/11/88	$477,108	000	00/00/00	
	GILMORE, CITY OF	92	130	08/17/87	$350,000	000	00/00/00	
	GILMORE, CITY OF	92	130	08/17/87	$150,000	000	00/00/00	
	PARKIN RURAL WATER	91	130	05/22/87	$380,950	000	00/00/00	
	CARTHAGE, CITY OF	91	130	08/05/88	$256,000	130	08/05/88	$230,462
	WINCHESTER, TOWN OF	91	130	11/19/85	$38,200	000	00/00/00	
	WES-CON WATER USERS	91	130	01/07/85	$1,580,380	000	00/00/00	
	SOUTH OZARK WATER	91	130	12/22/88	$94,156	130	12/22/88	$162,045
	SOUTH OZARK WATER	91	130	12/22/88	$851,180	000	00/00/00	
	SALEM, CITY OF	92	130	12/22/88	$187,800	130	12/22/88	$60,000
	SALEM, CITY OF	92	130	12/22/88	$125,200	130	12/22/88	$40,000
	FULTON COUNTY WATER	91	130	09/08/86	$900,000	130	09/08/86	$560,125
	PERRYTOWN, TOWN OF	91	130	01/11/84	$76,100	130	01/11/84	$76,100
	PERRYTOWN, TOWN OF	92	130	01/03/84	$210,000	151	01/03/84	$120,000
	OZAN, CITY OF	91	130	10/11/85	$20,000	000	00/00/00	
	PERLA, TOWN OF	91	130	01/17/84	$80,000	000	00/00/00	
	JAMES KIMZEY REG	91	130	01/21/86	$4,835,000	130	01/21/86	$5,497,500
	JAMES KIMZEY REG	91	130	04/09/85	$2,800,000	130	04/09/85	$2,385,200
	MINERAL SPRINGS,	91	130	09/16/85	$601,000	000	00/00/00	
	MINERAL SPRINGS,	92	130	09/16/85	$149,000	000	00/00/00	
	OIL TROUGH, TOWN OF	92	130	09/08/86	$206,200	130	06/20/86	$206,200
	OIL TROUGH, TOWN OF	92	130	09/08/68	$88,372	101	06/20/86	$88,371
	SULPHUR ROCK,	92	130	12/16/88	$147,700	130	12/16/88	$210,000
	SULPHUR ROCK,	92	130	12/16/88	$63,000	130	12/16/88	$90,000
	CALICO ROCK, TOWN	92	130	01/20/89	$624,000	130	01/20/89	$622,000
	CALICO ROCK, TOWN	92	130	01/20/89	$624,000	130	01/20/89	$622,000
	BRUNER HILL WATER	91	130	11/07/83	$503,000	130	11/07/83	$885,000
	DIAZ, CITY OF	91	130	12/29/86	$75,000	000	00/00/00	
	COAL HILL, TOWN OF	92	130	08/01/88	$635,000	130	08/01/88	$665,000
	LUDWIG WATER USERS	91	130	06/27/88	$396,000	130	06/27/88	$68,500
	WALNUT HILL WATER	91	130	06/18/82	$132,000	130	06/18/82	$200,000
	BRADLEY, CITY OF	91	130	03/18/87	$90,820	000	00/00/00	
	LAWRENCE COUNTY	91	130	01/13/87	$814,600	130	01/13/87	$460,400
	LAGRANGE, TOWN OF	92	130	07/26/85	$29,960	000	00/00/00	
	LAGRANGE, TOWN OF	92	130	07/26/85	$12,840	000	00/00/00	
	YORKTOWN WATER ASSN	91	130	11/20/85	$172,000	130	11/20/85	$278,218
	GOULD, CITY OF	91	130	10/29/81	$140,000	130	10/29/81	$105,400
	JOINER, CITY OF	91	130	03/31/87	$14,300	000	00/00/00	
	JOINER, CITY OF	92	130	03/31/87	$33,400	000	00/00/00	
	BASSETT, CITY OF	92	130	06/20/86	$70,000	000	00/00/00	

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	BASSETT, CITY OF	92	130	06/20/86	$30,000	000	00/00/00	
	DOGWOOD COMMUNITY	91	130	04/22/88	$466,000	000	00/00/00	
	DELL, TOWN OF	92	130	10/31/86	$70,000	000	00/00/00	
	DELL, TOWN OF	92	130	10/31/86	$30,000	000	00/00/00	
	MOUNT IDA, CITY OF	92	130	06/27/88	$297,500	130	06/27/88	$297,500
	WILLISVILLE, TOWN	91	130	03/19/87	$250,000	130	03/19/87	$315,000
	BODCAW, CITY OF	91	130	07/12/82	$176,000	130	07/12/82	$164,000
	WESTERN GROVE, TOWN	92	130	11/19/84	$181,300	130	11/19/84	$174,300
	WESTERN GROVE, TOWN	92	130	11/19/84	$54,518	130	11/19/84	$52,290
	BEARDEN, CITY OF	91	130	02/02/87	$595,000	130	02/02/87	$789,500
	HARMONY GROVE WATER	91	130	01/14/87	$251,000	130	01/14/87	$312,800
	FRENCHPORT WATER	91	130	05/01/85	$48,000	130	05/01/85	$50,000
	BRAGG CITY WATER	91	130	03/26/81	$466,000	000	00/00/00	
	BUENA VISTA/OGEMAW	91	130	08/30/87	$380,000	130	08/30/87	$498,250
	SALEM FREEO	91	130	03/25/88	$593,400	130	03/25/88	$721,600
	PERRY-PULASKI CO.	91	130	08/27/86	$421,000	130	08/27/86	$179,000
	NEW DIXIE WATER	91	130	08/27/86	$451,179	000	00/00/00	
	ELAINE, CITY OF	91	130	06/17/85	$71,800	000	00/00/00	
	ELAINE, CITY OF	92	130	06/17/85	$28,200	000	00/00/00	
	MARVELL, CITY OF	92	130	12/11/87	$72,300	000	00/00/00	
	ANTOINE, TOWN OF	92	130	09/13/85	$88,900	130	09/13/85	$150,500
	ANTOINE, TOWN OF	92	130	09/13/85	$38,100	130	09/13/85	$64,500
	GLENWOOD, CITY OF	91	130	03/17/86	$1,402,500	130	03/17/86	$2,055,500
	LITTLE MISSOURI	91	130	09/05/83	$1,645,000	130	09/05/83	$1,645,000
	DAISY, TOWN OF	91	130	04/14/81	$300,000	130	04/14/81	$913,000
	NORTHERN OHIO WATER	91	130	11/07/85	$70,000	130	11/07/85	$170,000
	PAYNEWAY IMPR.	92	130	10/08/85	$53,690	000	00/00/00	
	PAYNEWAY IMPR.	92	130	10/08/85	$23,010	000	00/00/00	
	ACORN RURAL WATER	91	130	03/31/87	$267,000	130	03/31/87	$267,000
	FREEDOM WATER	91	130	06/01/88	$540,000	130	06/01/88	$270,000
	DES ARC, CITY OF	91	130	02/23/88	$650,700	130	02/23/88	$1,430,800
	NORTH PRAIRIE CNTY	91	130	06/13/86	$1,915,200	130	06/13/86	$2,283,800
	WRIGHTSVILLE, CITY	92	130	09/19/83	$453,000	130	09/19/83	$454,200
	CLINTON ROAD WATER	91	130	07/11/85	$71,700	000	00/00/00	
	MADISON, CITY OF	91	130	09/22/82	$208,400	130	09/22/82	$258,000
	SPG WATER ASSN	91	130	12/04/87	$250,000	130	12/04/87	$497,175
	MORNING STAR WATER	91	130	03/31/87	$137,500	130	03/31/87	$236,868
	OXLEY WATER ASSN.	91	130	02/04/87	$351,000	130	02/04/87	$598,315
	SOUTH MOUNTAIN	91	130	11/04/87	$415,800	130	11/04/87	$1,087,200
	LAVACA, CITY OF	92	130	07/20/88	$527,362	000	00/00/00	
	LOCKESBURG, CITY OF	91	130	07/20/84	$100,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	POUGHKEEPSIE WATER	91	130	10/21/87	$353,263	130	10/21/87	$537,764
	WEST STONE COUNTY	91	130	07/09/86	$845,000	130	07/09/86	$1,211,000
	PLEASANT GROVE	91	130	11/05/86	$519,000	101	08/21/86	$537,347
	RICHWOODS WATER	91	130	07/07/86	$510,000	130	07/07/86	$555,750
	HERPEL WATER	92	130	06/21/88	$53,000	130	06/21/88	$142,800
	OAK MANOR COMMUNITY	91	130	07/02/85	$100,000	000	00/00/00	
	CLINTON, CITY OF	91	130	10/21/87	$1,472,575	130	10/21/87	$532,525
	BEE BRANCH WATER	91	130	10/24/88	$285,400	130	10/24/88	$285,400
	JUDSONIA, CITY OF	91	130	09/19/83	$630,000	000	00/00/00	
	BRADFORD, CITY OF	91	130	10/21/87	$263,700	000	00/00/00	
	COTTON PLANT, CITY	91	130	09/23/87	$561,334	000	00/00/00	
FLORIDA	HIALEAH GARDENS	91	130	12/02/83	$6,230,000	130	12/02/83	$425,000
ILLINOIS	ELLERY NFP WATER CO	91	130	03/20/89	$202,000	000	00/00/00	
	ELVASTON, V. OF	91	130	03/20/89	$350,000	000	00/00/00	
	HARDIN CTY WTR COM	91	130	05/18/88	$436,500	130	05/18/88	$1,306,000
	PIKE COUNTY WATER	91	130	01/14/88	$409,000	130	01/14/88	$842,000
	EDDYVILLE, VILL.	92	130	06/21/88	$54,000	130	06/21/88	$427,182
	PULASKI, VILLAGE OF	92	130	11/02/88	$114,000	130	11/02/88	$306,000
	KASKASKIA WATER	91	130	03/20/89	$639,000	000	00/00/00	
	MUDDY, VILLAGE OF	91	130	01/22/87	$200,000	000	00/00/00	
	KIRKWOOD, VILL OF	92	130	12/21/87	$137,000	000	00/00/00	
	NASHVILLE, CITY OF	91	130	03/20/89	$8,989,900	000	00/00/00	
	CORINTH WATER DIST	91	130	01/19/89	$900,000	000	00/00/00	
	LAKE OF EGYPT WATER	91	130	11/04/88	$1,436,500	000	00/00/00	
INDIANA	SANTA CLAUS, TOWN	92	130	11/28/88	$900,000	000	00/00/00	
	PATRIOT, TOWN OF	92	130	12/12/88	$100,000	130	12/12/88	$125,000
KANSAS	RWD NO 3 CHAUTAUQUA	91	130	10/01/85	$117,000	130	10/01/85	$253,750
	PWWSD NO 9 GREENWOO	91	130	06/06/85	$400,000	130	06/06/85	$1,200,000
	RWD NO 3 GREENWOOD	91	130	07/23/86	$396,250	130	07/23/86	$1,188,750
	MARION CO IMPR #3	92	130	12/13/88	$35,000	130	12/13/88	$87,052
	RWD NO 2 SEDGWICK	91	130	09/27/88	$617,500	000	00/00/00	
	RWD NO 1 TREGO CO	91	130	04/02/81	$160,000	000	00/00/00	
KENTUCKY	ADAIR COUNTY WATER	91	130	12/20/88	$758,000	130	12/20/88	$500,000
	PARK CITY, CITY OF	91	130	12/20/88	$600,000	000	00/00/00	
	SALT LICK, CITY OF	92	130	12/19/88	$220,000	000	00/00/00	
	PINEVILLE, CITY OF	92	130	12/07/88	$1,393,700	130	12/07/88	$454,300
	NORTH MIDDLETOWN,	91	130	12/12/88	$66,000	130	12/12/88	$437,500
	BOYD CO SANITATION	92	130	12/07/88	$940,984	000	00/00/00	
	HEDGEVILLE WATER	91	130	12/12/88	$353,101	000	00/00/00	
	BRACKEN COUNTY	91	130	12/19/88	$645,400	140	12/15/87	
	JACKSON, CITY OF	92	130	12/08/88	$2,364,000	140	12/14/87	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
	CALDWELL CO. WATER	91	130	12/08/88	$1,409,534	140	12/31/87	
	CALDWELL CO. WATER	91	130	12/08/88	$1,757,330	140	12/01/88	
	WEST CARROLL COUNTY	91	130	12/13/88	$385,000	140	11/10/87	
	WORTHVILLE, CITY OF	92	130	12/13/88	$71,901	130	12/13/88	$279,000
	GRAYSON, CITY OF	91	130	12/19/88	$900,000	140	12/16/87	
	OLIVE HILL, CITY OF	92	130	12/19/88	$380,000	130	12/19/88	$380,000
	RATTLESNAKE RIDGE	91	130	12/19/88	$316,000	130	12/19/88	$250,000
	EAST CASEY COUNTY	91	130	12/20/88	$500,000	140	11/15/88	
	CHRISTIAN CO. WATER	91	130	12/08/88	$483,295	000	00/00/00	
	BOONESBORO WATER	91	130	12/12/88	$710,000	140	12/14/87	
	EAST CLARK COUNTY	91	130	12/09/88	$487,800	000	00/00/00	
	NORTH MANCHESTER	91	130	12/07/88	$371,000	130	12/07/88	$202,000
	ALBANY, CITY OF	91	130	12/20/88	$600,000	130	12/20/88	$200,000
	SANDY HOOK WATER	91	130	12/19/88	$322,477	000	00/00/00	
	ESTILL CO. WATER	91	130	12/07/88	$520,400	140	11/15/88	
	FLEMING COUNTY	91	130	12/19/88	$847,800	130	12/19/88	$847,800
	PRESTONSBURG, CITY	91	130	12/08/88	$616,588	140	12/14/87	
	BEAVER-ELKHORN	91	130	12/08/88	$1,770,000	140	12/14/87	
	WHEELWRIGHT, CITY	91	130	12/08/88	$721,000	130	12/08/88	$1,934,450
	WHEELWRIGHT, CITY	92	130	02/09/89	$150,000	130	02/09/89	$150,000
	ALLEN, CITY OF	92	130	12/08/88	$518,500	140	12/14/87	
	ELKHORN WATER	91	130	12/12/88	$333,000	000	00/00/00	
	GARRARD COUNTY	91	130	12/12/88	$3,106,000	000	00/00/00	
	GARRARD COUNTY	91	130	12/12/88	$182,000	130	12/12/88	$504,000
	CORINTH WATER	91	130	01/30/89	$116,000	130	01/30/89	$347,000
	GREEN COUNTY FISCAL	92	130	12/20/88	$269,750	130	12/20/88	$781,200
	RACELAND, CITY OF	91	130	12/19/88	$253,400	000	00/00/00	
	GREENUP, CITY OF	91	130	12/19/88	$594,000	140	11/15/88	
	WORTHINGTON, CITY	91	130	12/19/88	$1,200,000	140	12/15/87	
	WORTHINGTON, CITY	92	130	12/19/88	$100,000	140	12/15/87	
	HAWESVILLE, CITY OF	91	130	12/21/88	$1,348,170	000	00/00/00	
	WEST POINT, CITY OF	92	130	12/13/88	$30,000	140	12/15/87	
	BENHAM, CITY OF	92	130	12/07/88	$570,000	140	12/18/87	
	BLACK MOUNTAIN	91	130	12/07/88	$250,417	130	12/07/88	$250,416
	CUMBERLAND, CITY OF	91	130	12/07/88	$454,603	000	00/00/00	
	LOYALL, CITY OF	92	130	12/07/88	$96,000	140	12/21/87	
	BONNIEVILLE, CITY	92	130	12/20/88	$175,000	130	12/20/88	$175,000
	MUNFORDVILLE, CITY	92	130	12/20/88	$300,000	130	12/20/88	$240,000
	HENDERSON COUNTY	91	130	12/08/88	$1,791,000	000	00/00/00	
	CORYDON, CITY OF	92	130	12/08/88	$1,159,000	140	12/31/87	
	NEBO WATER DISTRICT	91	130	12/08/88	$300,000	000	00/00/00	

STATE NAME -----	BORROWER NAME ---------	FUND CODE ----	LOAN STAT ----	LOAN STAT DATE ----	LOAN AMOUNT ------	GRANT STAT -----	GRANT STAT DATE -----	GRANT AMOUNT ------
	JACKSON COUNTY	91	130	12/07/88	$425,050	130	12/07/88	$442,700
	LEXINGTON-SOUTH	91	130	12/12/88	$1,376,915	140	12/14/87	
	BEATTYVILLE, CITY	91	130	02/09/89	$672,000	130	02/09/89	$167,550
	JENKINS, CITY OF	92	130	12/08/88	$1,212,600	000	00/00/00	
	LETCHER COUNTY	91	130	12/08/88	$250,000	130	12/08/88	$250,000
	VANCEBURG, CITY OF	91	130	12/09/88	$286,000	140	11/15/88	
	STANFORD, CITY OF	91	130	12/12/88	$791,000	000	00/00/00	
	MCKINNEY WATER	91	130	12/12/88	$923,700	130	12/12/88	$609,600
	LEDBETTER WATER	91	130	12/08/88	$172,000	000	00/00/00	
	EAST LOGAN WATER	91	130	12/13/88	$440,900	140	12/18/87	
	HENDRON WATER	91	130	12/08/88	$761,000	140	11/15/84	
	HENDRON WATER	92	130	12/14/84	$775,265	130	12/14/84	$1,305,865
	WEST MCCRACKEN	91	130	12/08/88	$527,700	140	11/17/88	
	MCCREARY COUNTY	91	130	12/07/88	$830,000	140	12/07/88	
	SACRAMENTO, CITY OF	91	130	12/20/88	$471,000	140	12/18/87	
	MAGOFFIN COUNTY	91	130	01/13/89	$107,200	130	01/13/89	$176,800
	WASHINGTON, CITY OF	92	130	12/19/88	$308,000	000	00/00/00	
	SOUTHERN MASON	91	130	12/19/88	$150,000	130	12/19/88	$249,400
	SOUTHERN MASON	91	130	12/19/88	$83,150	130	12/19/88	$249,100
	MEADE COUNTY WATER	91	130	12/13/88	$580,000	000	00/00/00	
	FRENCHBURG, CITY OF	91	130	12/08/88	$150,070	130	12/08/88	$185,200
	LAKE VILLAGE WATER	91	130	12/12/88	$1,070,000	140	12/12/88	
	NORTH MERCER WATER	91	130	12/12/88	$1,476,000	000	00/00/00	
	EDMONTON, CITY OF	91	130	12/20/88	$346,620	130	12/20/88	$400,000
	EDMONTON, CITY OF	91	130	12/20/88	$188,885	130	12/20/88	$200,000
	MONROE CO. WATER	91	130	12/20/88	$810,410	140	11/15/88	
	WEST LIBERTY, CITY	91	130	12/08/88	$164,625	130	12/08/88	$350,000
	NORTH NELSON WATER	91	130	01/11/89	$295,017	000	00/00/00	
	BLOOMFIELD, CITY OF	91	130	12/13/88	$133,000	130	12/13/88	$450,000
	OHIO COUNTY WATER	91	130	12/22/88	$112,162	140	11/15/88	
	CENTERTOWN, CITY OF	91	130	12/20/88	$440,900	140	11/16/88	
	HARTFORD, CITY OF	91	130	12/20/88	$435,515	140	11/15/88	
	BEAVER DAM, CITY OF	92	130	12/20/88	$1,632,936	140	11/15/88	
	BOONEVILLE, CITY OF	91	130	12/08/88	$101,000	130	12/08/88	$350,600
	PENDLETON COUNTY	91	130	12/12/88	$1,000,000	140	11/16/88	
	POND CREEK WATER	91	130	12/14/87	$227,500	000	00/00/00	
	PIKEVILLE, CITY OF	92	130	12/08/88	$720,000	140	12/14/87	
	ELIHU-RUSH BRANCH	91	130	12/07/88	$316,000	130	12/07/88	$1,035,550
	BARNESBURG WATER	91	130	12/07/88	$350,000	140	11/17/88	
	NELSON VALLEY WATER	91	130	12/07/88	$800,000	130	12/07/88	$630,000
	TATEVILLE WATER	91	130	12/07/88	$508,000	130	12/07/88	$600,000

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	PULASKI COUNTY	91	130	12/07/88	$177,175	140	12/18/87	
	PULASKI COUNTY	91	130	12/07/88	$800,000	130	12/07/38	$160,000
	BURNSIDE, CITY OF	92	130	12/07/88	$187,500	130	12/07/88	$562,500
	BUFFALO TRAIL WATER	91	130	12/15/87	$323,000	130	12/15/87	$100,000
	WESTERN ROCKCASTLE	91	130	12/07/88	$117,000	130	12/07/88	$420,000
	WESTERN ROCKCASTLE	91	130	12/07/88	$613,000	130	12/07/88	$702,000
	WESTERN ROCKCASTLE	91	130	12/07/88	$313,000	130	12/07/88	$1,087,000
	LIVINGSTON, CITY OF	91	130	12/07/88	$337,300	130	12/07/88	$123,700
	ROWAN WATER INC	91	130	12/19/88	$1,164,065	130	12/19/88	$381,055
	MOREHEAD, CITY OF	92	130	12/19/88	$609,497	130	12/19/88	$1,828,490
	MOREHEAD, CITY OF	92	130	12/19/88	$441,845	130	12/19/88	$441,845
	RUSSELL SPRINGS,	92	130	12/20/88	$233,000	130	12/20/88	$697,300
	JAMESTOWN, CITY OF	91	130	12/20/88	$400,000	130	12/20/88	$528,000
	TAYLORSVILLE, CITY	92	130	12/13/88	$532,500	130	12/13/88	$532,500
	UNION COUNTY WATER	91	130	12/08/88	$658,000	000	00/00/00	
	SPRINGFIELD, CITY	91	130	12/20/88	$673,500	130	12/20/88	$242,000
	MONTICELLO, CITY OF	91	130	12/07/88	$559,160	130	12/07/88	$242,000
	MONTICELLO, CITY OF	92	130	12/07/88	$232,250	130	12/07/88	$356,200
	CUMBERLAND FALLS	91	130	12/07/88	$33,800	140	12/07/88	
	WHITLEY COUNTY	91	130	12/07/88	$355,000	130	12/07/88	$250,000
	SOUTH WOODFORD CO	91	130	12/12/88	$400,000	000	00/00/00	
LOUISIANA	MIRE-BRANCH W CORP	91	130	12/15/88	$200,000	000	00/00/00	
	CHURCH POINT TOWN O	92	130	11/07/88	$1,288,038	130	11/07/88	$1,288,038
	EAST FELICIANA WWD7	91	130	11/15/88	$520,000	000	00/00/00	
	CHATAIGNIER WATER	91	130	02/17/89	$50,000	000	00/00/00	
	BASILE, TOWN OF	91	130	03/15/89	$1,023,481	130	03/15/89	$1,000,000
	LAFAYETTE NORTH	91	130	12/15/88	$900,000	000	00/00/00	
	ALBANY VILLAGE OF	92	130	11/18/88	$200,000	130	11/18/88	$575,000
	SOUTH BONNE IDEE	91	130	09/05/86	$10,000	130	09/05/86	$30,000
	ARNAUDVILLE TOWN OF	91	130	11/10/88	$725,000	000	00/00/00	
	ST MARY PARISH SEWE	92	130	11/22/88	$666,300	130	11/22/88	$1,998,900
	TANGIPAHOA SD #1	92	130	02/06/89	$1,085,820	000	00/00/00	
	PONCHATOULA CITY OF	92	130	03/08/89	$2,116,000	000	00/00/00	
	TICKFAW VILLAGE OF	92	130	11/10/88	$650,000	000	00/00/00	
MAINE	BINGHAM TOWN OF	92	130	01/25/89	$600,000	000	00/00/00	
	MEXICO WATER DISTRI	91	130	03/14/88	$560,000	130	03/14/88	$280,000
MASSACHUSETTS	SALISBURY, TOWN OF	92	130	04/15/88	$1,919,000	000	00/00/00	
MICHIGAN	MARTIN,VILLAGE OF	91	130	08/31/88	$948,000	000	00/00/00	
	AU GRES CITY OF	92	130	04/28/88	$1,062,000	130	04/28/88	$150,000
	SIMS WHITNEY	91	130	11/19/87	$424,000	130	11/19/87	$426,000
	AU GRES TOWNSHIP	91	130	11/14/88	$643,500	130	11/14/88	$786,500

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	AU GRES TOWNSHIP	92	130	11/14/88	$1,362,000	130	11/14/88	$1,664,000
	RUDYARD TOWNSHIP	91	130	05/25/88	$1,654,000	130	05/25/88	$1,009,000
	CASEVILLE VILLAGE	92	130	12/14/87	$2,619,000	130	12/14/87	$790,000
	BATES TOWNSHIP	91	130	11/09/88	$1,170,000	130	11/09/88	$830,000
	BREVORT TOWNSHIP	92	130	10/28/85	$730,000	130	10/28/85	$2,189,800
	NEW HAVEN VILL OF	92	130	01/28/86	$788,000	000	00/00/00	
	GRANT,CITY OF	92	130	08/25/88	$375,000	000	00/00/00	
MINNESOTA	PILLAGER CITY OF	92	130	08/05/85	$546,150	130	08/05/85	$600,000
MISSISSIPPI	WILK-AMITE WATER	91	130	12/19/86	$63,300	130	12/19/86	$156,700
	EAST QUITMAN WATER	91	130	01/14/87	$614,939	000	00/00/00	
	WHITE STATION WATER	91	130	08/29/86	$75,000	000	00/00/00	
	WEST POINT CITY OF	91	130	05/26/87	$288,500	000	00/00/00	
	LEWISBURG WATER	91	130	09/11/87	$440,000	000	00/00/00	
	WALLS WATER ASSN	91	130	09/11/87	$190,900	000	00/00/00	
	GLENDALE UTILITY	91	130	08/24/88	$1,000,000	000	00/00/00	
	BENNDALE WATER ASSN	91	130	07/14/88	$1,000,000	130	07/14/88	$1,000,000
	BUZZARD ROOST WATER	91	130	07/14/88	$1,045,000	000	00/00/00	
	BEAT III GREENE CO	91	130	07/14/88	$667,920	130	07/14/88	$667,920
	LEAKESVILLE TOWN OF	91	130	07/14/88	$638,000	130	07/14/88	$602,000
	LEAKESVILLE TOWN OF	92	130	07/14/88	$43,850	130	07/14/88	$74,870
	LEAKESVILLE TOWN OF	92	130	07/14/88	$43,850	130	07/14/88	$74,870
	SOUTHEAST GREENE	91	130	03/08/88	$206,000	130	03/08/88	$478,000
	CATAHOULA WATER	91	130	07/14/88	$254,465	000	00/00/00	
	D IBERVILLE	91	130	07/14/88	$1,400,000	000	00/00/00	
	GAGES SPRINGS WATER	91	130	05/15/87	$41,300	130	05/15/87	$108,700
	LEXINGTON, CITY OF	92	130	06/06/85	$339,500	000	00/00/00	
	NORTHEAST ITAWAMBA	91	130	04/04/88	$76,000	000	00/00/00	
	FULTON CITY OF	92	130	07/21/88	$940,000	000	00/00/00	
	ESCATAWPA SUBURBAN	91	130	07/14/88	$715,000	130	07/14/88	$715,000
	ESCATAWPA SUBURBAN	92	130	07/14/88	$550,000	130	07/14/88	$550,000
	WEST JASPER WATER	91	130	06/20/86	$272,280	000	00/00/00	
	UNION CHURCH	91	130	12/02/87	$37,400	130	12/02/87	$112,200
	AUBURN WATER	91	130	07/08/88	$64,000	000	00/00/00	
	LIVINGSTON ROAD WTR	91	130	04/15/88	$93,000	000	00/00/00	
	MARSHALL CO WATER	91	130	02/09/87	$525,000	130	02/09/87	$425,000
	BROOKSVILLE TOWN OF	91	130	07/19/86	$125,000	130	07/19/86	$125,000
	BI-COUNTY WATER	91	130	07/14/88	$100,000	130	07/14/88	$100,000
	NORTHEAST PERRY	91	130	02/02/87	$377,612	130	02/02/87	$300,000
	RUNNELSTOWN UTILITY	91	130	07/14/88	$225,000	130	07/14/88	$225,000
	RANDOLPH WATER ASSN	91	130	03/01/89	$250,000	000	00/00/00	
	STAR WATER CO	91	130	04/21/88	$115,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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	L AND F WATER ASSN	91	130	12/08/88	$115,000	000	00/00/00	
	HARRISVILLE WATER	91	130	09/19/88	$295,000	130	09/19/88	$383,000
	CITY OF IUKA	92	130	07/05/88	$350,000	000	00/00/00	
	MAGEES CREEK WATER	91	130	12/12/88	$100,000	000	00/00/00	
	HIWANNEE WATER ASSN	91	130	08/05/88	$915,500	000	00/00/00	
	OLD RIVER WTR ASSN	91	130	01/18/89	$69,848	130	01/18/89	$209,542
	SOUTH CENTREVILLE	91	130	01/27/89	$114,125	130	01/27/89	$342,375
	CASEY JONES WATER	91	130	01/04/89	$100,000	000	00/00/00	
	RENSHAW WATER ASSN	91	130	02/16/89	$72,000	130	02/16/89	$80,700
	LAKE CITY WATER	91	130	12/03/86	$75,300	130	12/03/86	$64,700
MISSOURI	BATES CO, PWSD NO 7	91	130	01/29/86	$600,000	000	00/00/00	
	RICH HILL, CITY OF	91	130	07/09/88	$650,000	130	07/09/88	$314,200
	ST MARTINS, VILLAGE	92	130	01/29/86	$218,000	000	00/00/00	
	JACKSON CO, PWSD 16	91	130	01/29/86	$1,600,000	000	00/00/00	
	OSCEOLA, CITY OF	92	130	10/12/88	$100,000	130	10/12/88	$400,000
	SULLIVAN CO, PWSD 1	91	130	01/20/89	$850,000	130	01/20/89	$450,000
MONTANA	ROUNDUP CITY OF	92	130	07/22/80	$832,000	000	00/00/00	
NEW YORK	HUNTER, VILLAGE OF	92	130	10/20/87	$4,000,000	000	00/00/00	
	CAIRO TOWN OF	91	130	01/05/88	$717,400	000	00/00/00	
	FORT PLAIN VIL OF	91	130	06/15/88	$2,918,000	000	00/00/00	
NORTH DAKOTA	AGASSIZ WATER USERS	91	130	09/30/88	$275,000	000	00/00/00	
OHIO	CLEAR WATER	91	130	08/31/88	$267,000	130	08/31/88	$349,000
OKLAHOMA	MCINTOSH CO RWD #5	91	130	01/19/89	$300,000	130	01/19/89	$250,000
	MUSKOGEE CO RWD #3	91	130	01/19/89	$200,000	130	01/19/89	$330,000
	EAST CENTRAL OKLA	91	130	05/04/88	$100,000	130	05/04/88	$300,000
	HASKELL PWA	92	130	01/23/89	$130,000	130	01/23/89	$390,000
	PITTSBURG C WATERAU	91	130	05/04/88	$510,000	130	05/04/88	$380,000
	RWSG&SWMD #14 PITTS	91	130	01/19/89	$350,000	130	01/19/89	$1,050,000
TENNESSEE	DRY RUN UTILITY DIS	91	130	09/13/88	$225,000	130	09/13/88	$751,408
TEXAS	MILITARY HWY WSC	92	130	11/28/86	$187,500	130	11/28/86	$562,500
	BEASLEY TOWN OF	91	130	05/16/84	$187,200	000	00/00/00	
	BEASLEY TOWN OF	92	130	05/16/84	$259,200	000	00/00/00	
	CHATT WSC	91	130	03/14/88	$978,000	000	00/00/00	
	INGRAM, CITY OF	92	130	12/19/88	$7,253,690	130	12/19/88	
	RED RIVER COUNTY	91	130	08/19/87	$1,470,000	000	00/00/00	
WEST VIRGINIA	ELK TWO-MILE PUBLIC	91	130	03/15/83	$430,000	000	00/00/00	
ALABAMA	BLOUNTSVILLE,T UTIL	91	131	10/03/88	$895,578	000	00/00/00	
	FRANKLIN COUNTY WTR	91	131	09/22/88	$425,000	000	00/00/00	
CALIFORNIA	DEL REY COMMUNITY	92	131	08/14/87	$1,082,000	131	08/14/87	$191,000
COLORADO	DELTA , CITY OF	92	131	10/26/88	$1,284,000	131	10/26/88	$551,224
	NORTH DELTA	92	131	10/26/88	$1,400,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
FLORIDA	CENTURY, TOWN OF	91	131	01/12/88	$285,000	000	00/00/00	
	CENTURY, TOWN OF	92	131	01/12/88	$3,615,000	000	00/00/00	
IDAHO	SALMON CITY OF	91	131	01/02/89	$1,357,819	131	01/02/89	$1,967,817
INDIANA	THE PATOKA LAKE REG	91	131	10/17/88	$19,250,000	000	00/00/00	
	HILLSBORO, TOWN OF	92	131	05/04/88	$2,138,000	000	00/00/00	
	BRYANT, TOWN OF	92	131	12/08/88	$100,000	131	12/08/88	$550,000
	EDWARDSPORT, TOWN O	92	131	07/13/88	$252,700	000	00/00/00	
	B & B WATER CORP	91	131	01/03/89	$615,253	000	00/00/00	
	NEW RICHMOND, TOWN	92	131	03/07/89	$593,250	000	00/00/00	
	FRENCH LICK, TOWN O	92	131	11/18/88	$1,229,050	131	11/18/88	$3,687,150
	WEST BADEN SPRINGS,	92	131	11/18/88	$377,000	131	11/18/88	$1,129,500
IOWA	ST OLAF, CITY OF	91	131	05/22/86	$70,000	000	00/00/00	
LOUISIANA	CASTOR VILLAGE OF	91	131	06/02/87	$250,000	000	00/00/00	
	WEST BISTINEAU WSI	91	131	06/02/87	$600,000	000	00/00/00	
	COUSHATTA, TOWN OF	91	131	06/02/87	$1,000,000	000	00/00/00	
	GILARK WATER SYSTEM	91	131	08/04/87	$50,000	000	00/00/00	
	SALT WORKS WATER	91	131	08/04/87	$40,000	000	00/00/00	
MISSISSIPPI	KOSSUTH WATER ASSN	91	131	06/24/87	$100,000	000	00/00/00	
	UNION WATER ASSOCIA	91	131	05/20/88	$360,000	000	00/00/00	
	LILY ROSE WATER	91	131	05/23/84	$200,000	131	05/23/84	$271,000
	PELAHATCHIE TOWN OF	92	131	07/17/88	$700,000	000	00/00/00	
	RIPLEY CITY OF	92	131	10/24/86	$920,000	000	00/00/00	
MISSOURI	FILLMORE, CITY OF	92	131	03/10/86	$150,000	000	00/00/00	
	GASCONADE, CITY OF	92	131	01/29/86	$150,000	131	01/29/86	$278,400
	HOLT CO PWSD NO 1	91	131	03/04/86	$445,000	000	00/00/00	
NEW JERSEY	EGG HARBOR TWP MUA	92	131	09/14/88	$650,000	000	00/00/00	
	LOWER, TOWNSHIP OF	91	131	09/14/88	$870,000	000	00/00/00	
	LOWER, TOWNSHIP OF	92	131	09/14/88	$870,000	000	00/00/00	
	NEWTON TOWN OF *	91	131	12/30/88	$797,500	000	00/00/00	
NEW YORK	WELLSVILLE TOWN	91	131	01/11/89	$262,400	131	01/11/89	$320,600
	WELLSVILLE TOWN	92	131	01/11/89	$367,600	131	01/11/89	$449,200
NORTH DAKOTA	WRITING ROCK WATER	91	131	07/12/88	$1,000,000	131	07/12/88	$400,000
	MOUNTRAIL WATER	91	131	08/01/88	$2,000,000	000	00/00/00	
	CREEL TOWNSHIP	91	131	07/01/88	$1,250,000	131	07/01/88	$1,250,000
	UPPER SOURIS WATER	91	131	03/24/89	$237,500	000	00/00/00	
OKLAHOMA	RWD #5, PUSHMATAHA	91	131	04/20/88	$227,500	131	04/20/88	$592,500
	ROGERS CO. RSD #1	92	131	06/21/88	$342,500	131	06/21/88	$1,027,500
OREGON	PORT ORFORD CITY OF	92	131	11/14/88	$935,700	131	11/14/88	$1,370,600
	PANTHER CREEK WATER	91	131	09/28/88	$80,000	000	00/00/00	
	HARRISBURG CITY OF	92	131	12/13/88	$1,150,000	000	00/00/00	
	NESKOWIN REGIONAL	92	131	05/05/88	$800,000	000	00/00/00	
	NORTH PLAINS CITY	91	131	05/05/88	$25,000	000	00/00/00	

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
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PUERTO RICO	NARANJITO	92	131	04/06/87	$1,344,000	131	04/02/87	$816,000
SOUTH DAKOTA	SPEARFISH MEADOWS	91	131	11/10/86	$37,000	000	00/00/00	
TENNESSEE	WAVERLY CITY OF	92	131	03/01/88	$1,000,000	000	00/00/00	
	GLENDALE	91	131	03/31/86	$240,000	131	03/31/86	$50,000
	SUCK CREEK UTILITY	91	131	06/27/88	$170,000	131	06/27/88	$230,000
TEXAS	ARANSAS COUNTY	91	131	08/23/85	$3,000,000	000	00/00/00	
	SMITHVILLE, CITY OF	91	131	05/17/84	$400,000	000	00/00/00	
	BASTROP CO. WSC	91	131	04/30/87	$12,000,000	000	00/00/00	
	CENTRAL TEXAS WSC	91	131	02/05/88	$1,700,000	000	00/00/00	
	BRAZORIA, CITY OF	91	131	05/16/84	$300,000	131	05/16/84	$300,000
	HOLIDAY LAKES	91	131	12/02/87	$500,000	000	00/00/00	
	ZEPHYR WATER SUPPLY	91	131	01/05/87	$2,150,000	000	00/00/00	
	LAKE BUCHANAN WSC	91	131	04/30/87	$850,000	000	00/00/00	
	NORTH CHEROKEE WSC	91	131	05/16/84	$175,000	000	00/00/00	
	LAKEPORT CITY OF	92	131	12/02/87	$163,000	131	12/02/87	$160,000
	SPRINGS HILL WATER	91	131	02/06/87	$890,000	000	00/00/00	
	EARTH CITY OF	91	131	12/02/87	$187,200	000	00/00/00	
	NORMANGEE CITY OF	91	131	04/30/87	$180,500	000	00/00/00	
	NORMANGEE CITY OF	92	131	04/30/87	$180,500	000	00/00/00	
	AMES-MINGLEWOOD WSC	91	131	02/09/87	$250,000	000	00/00/00	
	CEDAR ISLAND WATER	91	131	02/03/84	$210,000	000	00/00/00	
	MILLSAP WATER	91	131	12/02/87	$400,000	000	00/00/00	
	SAND FLAT WATER	91	131	05/28/87	$100,000	000	00/00/00	
	JARRELL-SCHWERTNER	91	131	01/30/86	$115,000	000	00/00/00	
	LAKE GRANGER WSC	91	131	05/17/84	$4,998,000	131	05/17/84	$4,997,000
	PICOSA WATER SUPPLY	91	131	01/28/86	$780,000	000	00/00/00	
WISCONSIN	EAU GALLE SAN.DIST	91	131	04/13/81	$260,419	131	04/13/81	$330,919
	EAU GALLE SAN.DIST	92	131	04/13/81	$65,539	131	04/13/81	$62,878
	EAU GALLE SAN.DIST	92	131	04/13/81	$156,840	131	04/13/81	$45,234
WYOMING	RIVERSIDE TOWN OF	91	131	11/01/88	$36,200	131	11/01/88	$340,000
ARIZONA	ASH FORK DEV.	91	201	11/07/88	$168,600	201	11/07/88	$40,000
	CAMP VERDE SANITARY	92	201	10/31/88	$307,000	201	10/31/88	$205,700
ARKANSAS	GRAND PRAIRIE REG.	91	201	06/16/88	$587,000	000	00/00/00	
	ORION WATER ASSO	91	201	08/31/87	$580,000	000	00/00/00	
	MARMADUKE, TOWN OF	92	201	07/06/88	$335,000	000	00/00/00	
	MANILA, CITY OF	92	201	08/21/88	$93,000	000	00/00/00	
	NORMAN, TOWN OF	92	201	11/14/88	$155,000	000	00/00/00	
	NORTH PIKE COUNTY	91	201	07/31/87	$1,930,000	201	07/31/87	$1,160,000
	SOUTHWEST ATKINS	91	201	02/28/88	$167,000	000	00/00/00	
	NEW LONDON WATER	91	201	04/19/82	$48,160	201	04/19/82	$48,160
CALIFORNIA	AVILA BEACH CNTY	91	201	08/10/88	$548,000	201	08/10/88	$100,000

STATE NAME	BORROWER NAME	FUND CODE	LOAN STAT	LOAN STAT DATE	LOAN AMOUNT	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
COLORADO	ROMEO, TOWN OF	91	201	11/29/88	$26,100	201	11/29/88	$63,100
	ROMEO, TOWN OF	92	201	04/24/87	$26,100	201	04/24/87	$45,400
	NAVAJO WESTERN	91	201	12/07/88	$53,900	201	12/07/88	$140,600
	SUMMIT RIDGE WATER	91	201	12/10/88	$843,000	201	12/10/88	$182,000
FLORIDA	LANARK VILLAGE	92	201	12/30/88	$500,000	401	00/00/00	
	GROVELAND, CITY OF	92	201	05/06/88	$406,768	201	05/06/88	$497,162
	GROVELAND, CITY OF	92	201	05/06/88	$1,045,863	201	05/06/88	$1,278,277
	GROVELAND, CITY OF	92	201	05/06/88	$266,368	201	05/06/88	$325,562
	ST JOHNS CO BD	91	201	08/10/88	$5,254,000	000	00/00/00	
	ST JOHNS CO BD	92	201	08/10/88	$1,180,000	201	08/10/88	$1,180,000
	HAMPTON HILL CORP.	91	201	06/30/88	$836,000	201	06/30/88	$971,300
GEORGIA	STATHAM CITY OF	91	201	02/17/89	$851,000	201	02/17/89	$1,559,000
	KEYSVILLE, CITY OF	91	201	02/16/89	$95,000	201	02/16/89	$290,000
	WRENS CITY OF	91	201	01/19/89	$212,500	201	01/19/89	$637,500
	LEE COUNTY	91	201	09/16/87	$2,500,000	000	00/00/00	
	LEE COUNTY	92	201	09/16/87	$500,000	000	00/00/00	
	PELHAM CITY OF	92	201	03/14/89	$1,025,000	201	03/14/89	$918,000
	STEWART COUNTY	91	201	02/09/89	$160,750	201	02/09/89	$452,250
	THOMAS COUNTY	91	201	09/09/87	$4,764,000	000	00/00/00	
	WESTON TOWN OF	91	201	02/01/89	$50,000	201	02/01/89	$148,875
IDAHO	WHISKEYJACK WATER	91	201	07/06/88	$95,350	000	00/00/00	
	BAYVIEW WATER AND	93	201	01/03/89	$762,200	401	00/00/00	$40,000
INDIANA	NEWPOINT, TOWN OF	92	201	08/05/88	$150,000	000	00/00/00	
	WESTPORT, TOWN OF	91	201	12/07/87	$380,000	000	00/00/00	
	EASTERN HEIGHTS	91	201	07/26/88	$1,352,500	201	07/26/88	$1,655,000
	WHEATFIELD, TOWN OF	92	201	01/25/89	$163,266	000	00/00/00	
	DUPONT, TOWN OF	92	201	08/08/88	$196,600	000	00/00/00	
	LAPAZ, TOWN OF	92	201	05/19/88	$344,195	000	00/00/00	
	GOODLAND, TOWN OF	92	201	11/25/88	$870,000	201	11/25/88	$300,000
	ORLEANS, TOWN OF	92	201	11/03/88	$170,000	201	11/03/88	$390,000
	WINSLOW, TOWN OF	92	201	10/04/88	$424,400	201	10/04/88	$790,000
	HOLTON, TOWN OF	92	201	08/16/88	$698,500	000	00/00/00	
	WEST LEBANON, TOWN	92	201	02/21/89	$525,000	000	00/00/00	
	FOUNTAIN CITY	92	201	03/04/88	$350,000	000	00/00/00	
LOUISIANA	LAKESIDE SEWERAGE D	92	201	11/25/88	$772,000	000	00/00/00	
	WARD 4 WATER DISTRI	91	201	12/13/88	$142,200	201	12/13/88	$408,300
	WARD 4 WATER DISTRI	91	201	12/14/88	$70,700	201	12/14/88	$202,800
	WEST WINNSBORO WSI	91	201	11/05/87	$299,000	201	11/05/87	$298,000
	IBERVILLE P WWD #3	91	201	05/01/88	$1,210,000	201	05/01/88	$1,210,000
	LINCOLN WWD #3	91	201	03/23/89	$568,000	000	00/00/00	
	WESLEY CHAPEL WATER	91	201	11/29/88	$553,000	000	00/00/00	
	BAYOU DES CANNES	91	201	01/12/89	$1,103,400	201	01/12/89	$1,103,000

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	RURAL FRANKLINTON	91	201	09/27/88	$646,670	000	00/00/00	
	MT HERMON WSI	91	201	05/18/88	$850,000	201	05/18/88	$1,060,000
	ADDIS TOWN OF	92	201	02/25/88	$351,200	000	00/00/00	
MAINE	FARMINGTON VILLAGE	91	201	11/30/88	$1,011,000	201	11/30/88	$489,000
	WARREN SANITARY	92	201	04/15/88	$2,077,630	201	04/15/88	$672,100
	OLD ORCHARD BEACH T	92	201	01/10/89	$800,000	201	01/10/89	$100,000
	GRAND ISLE TOWN OF	91	201	08/10/87	$314,000	201	08/10/87	$1,154,000
	LUBEC TOWN OF	92	201	07/28/88	$411,200	201	07/28/88	$1,492,400
	STONINGTON TOWN OF	92	201	02/08/89	$405,000	000	00/00/00	
	HOWLAND TOWN OF	91	201	01/10/89	$155,000	201	01/10/89	$845,000
MARYLAND	RAWLINGS IMPROVE	92	201	05/13/88	$60,000	000	00/00/00	
	CHARLESTOWN, TOWN	91	201	09/06/88	$3,429,000	000	00/00/00	
	ROCK HALL, TOWN OF	91	201	10/21/88	$100,000	000	00/00/00	
	BETTERTON, TOWN OF	91	201	08/01/88	$503,810	000	00/00/00	
	WASHINGTON COUNTY	91	201	10/21/88	$396,800	000	00/00/00	
	HEBRON, TOWN OF	92	201	11/14/88	$819,410	000	00/00/00	
MINNESOTA	ELBOW LAKE, CITY OF	91	201	02/01/88	$581,000	000	00/00/00	
	NORTH KITTSON	91	201	12/13/88	$1,330,500	000	00/00/00	
	GLENWOOD, CITY OF	91	201	04/11/88	$500,000	201	04/11/88	$2,000,000
MISSISSIPPI	CARROLLTON TOWN OF	91	201	07/22/88	$80,000	201	07/22/88	$292,500
	LAGRANGE WATER ASSN	91	201	07/11/88	$192,000	000	00/00/00	
	MOON LAKE, WATER	91	201	11/18/87	$205,000	201	11/18/87	$170,000
	LONG CREEK WATER	91	201	01/13/88	$400,000	000	00/00/00	
	BOGUE CHITTO WATER	91	201	06/15/88	$174,700	000	00/00/00	
	CRAWFORD TOWN OF	91	201	07/11/88	$185,300	000	00/00/00	
	HAYES CREEK WATER	91	201	08/16/88	$95,900	201	08/16/88	$178,400
	BROOKSVILLE TOWN OF	91	201	07/11/88	$366,500	201	07/11/88	$116,500
	BUCKATUNNA WATER	91	201	08/15/88	$174,500	201	08/15/88	$125,500
MISSOURI	BELLFLOWER, CITY OF	91	201	05/16/88	$200,000	201	05/16/88	$149,200
	HALF WAY, VILLAGE O	91	201	02/24/89	$77,820	201	02/24/89	$233,455
	STODDARD CO, PWSD 3	91	201	11/05/87	$33,200	201	11/05/87	$93,600
	IRONDALE CITY OF	92	201	01/20/89	$118,500	201	01/20/89	$904,500
MONTANA	HINSDALE EAST RURAL	91	201	02/18/86	$72,500	201	02/18/86	$187,200
NEW JERSEY	DELANCO TWP SA	92	201	10/27/86	$600,000	000	00/00/00	
	MIDDLE TOWNSHIP	92	201	01/27/89	$1,452,400	201	01/27/89	$517,200
	BERLIN, TOWNSHIP OF	92	201	02/06/89	$2,977,000	000	00/00/00	
NEW YORK	CLAYVILLE, VILLAGE	91	201	03/22/89	$325,000	000	00/00/00	
NORTH DAKOTA	LIGNITE, CITY OF	91	201	03/06/89	$285,000	000	00/00/00	
OHIO	BROWN COUNTY RURAL	91	201	12/14/88	$1,720,000	201	12/14/88	$400,000
	CUMBERLAND, VILLAGE	91	201	05/03/88	$8,000	201	05/03/88	$22,000
	SENECAVILLE, VLG OF	92	201	09/02/88	$281,000	201	09/02/88	$259,000
	SMITHFIELD, VILLAGE	92	201	12/01/88	$1,000,000	201	12/01/88	$616,000

STATE NAME -----	BORROWER NAME --------	FUND CODE ----	LOAN STAT ----	LOAN STAT DATE ----	LOAN AMOUNT ------	GRANT STAT -----	GRANT STAT DATE -----	GRANT AMOUNT ------
	SOUTHERN PERRY CO	91	201	04/07/88	$725,000	201	04/07/88	$465,000
OKLAHOMA	ADAIR COUNTY RWD #5	91	201	09/19/88	$372,500	201	09/19/88	$997,500
	CUSTER CITY PUBLIC	92	201	01/03/89	$52,100	000	00/00/00	
	DELAWARE CO RWD #3	91	201	03/07/89	$104,800	201	03/07/89	$284,100
	WELLSTON PWA	92	201	07/01/88	$140,000	201	07/01/88	$420,000
OREGON	FLORENCE CITY OF	91	201	01/25/89	$1,200,000	000	00/00/00	
PENNSYLVANIA	NEW ALBANY BOROUGH	91	201	02/21/89	$309,600	201	02/21/89	$512,100
	MID CAMERON	92	201	11/29/88	$525,850	000	00/00/00	
	MENALLEN TOWNSHIP S	92	201	03/15/88	$1,773,250	201	03/15/88	$677,000
	DUNKARD-BOBTOWN MUN	92	201	12/22/88	$750,000	201	12/22/88	$350,000
SOUTH CAROLINA	STARR-IVA WATER &	93	201	02/21/89	$485,000	000	00/00/00	
SOUTH DAKOTA	SIOUX RURAL WATER	91	201	08/02/88	$300,000	112	06/24/88	$650,000
	CAMELOT WATER PROJE	91	201	01/30/89	$197,000	000	00/00/00	
	DOLAND, CITY OF	92	201	02/23/89	$90,444	000	00/00/00	
TENNESSEE	WOODBURY TOWN OF	91	201	01/13/89	$800,000	201	01/13/89	$800,000
	CELINA CITY OF*	92	201	12/27/88	$291,250	201	12/27/88	$291,250
	TRACY CITY CITY OF	91	201	10/21/86	$187,500	201	10/21/86	$200,000
	LYNCHBURG CITY OF	91	201	03/23/87	$220,000	000	00/00/00	
	COOKEVILLE BOAT	91	201	03/08/89	$452,000	000	00/00/00	
	DEWHITE UTILITY	91	201	01/17/89	$130,000	201	01/17/89	$130,000
TEXAS	FILES VALLEY WSC	91	201	09/11/84	$1,500,000	201	09/11/84	$600,000
	COVINGTON, CITY OF	92	201	12/02/86	$77,000	000	00/00/00	
	CAMPBELL WSC	91	201	10/01/88	$100,000	000	00/00/00	
	RICARDO WSC	91	201	12/17/86	$1,118,000	000	00/00/00	
	AXTELL WSC	91	201	02/10/89	$111,000	000	00/00/00	
	LEANDER,CITY OF	92	201	02/09/89	$1,995,000	000	00/00/00	
	THRALL,CITY OF	92	201	01/09/89	$793,900	000	00/00/00	
UTAH	SPRING CITY	92	201	12/08/88	$200,000	201	12/08/88	$760,500
	WASHINGTON, CITY OF	92	201	09/24/86	$1,975,000	000	00/00/00	
	TWIN CITY WATER WKS	91	201	11/03/88	$864,100	201	11/03/88	$1,795,000
	MOCCASIN	91	201	03/14/88	$276,000	000	00/00/00	
VIRGINIA	PENNINGTON GAP TOWN	91	201	11/28/88	$630,000	201	11/28/88	$630,000
	PENNINGTON GAP TOWN	92	201	08/02/88	$1,100,000	201	08/02/88	$705,000
	PENNINGTON GAP TOWN	92	201	08/02/88	$1,100,000	201	08/02/88	$705,000
	SCOTT COUNTY WATER	91	201	01/04/89	$257,000	201	01/04/89	$250,500
WASHINGTON	GOLDENDALE, CITY OF	93	201	03/10/89	$300,000	000	00/00/00	
	SOUTH PRAIRIE, TOWN	92	201	01/04/88	$167,700	201	01/04/88	$532,700
	PUD #1 OF STEVENS C	91	201	08/30/88	$67,052	201	08/30/88	$253,900
	FARMINGTON, TOWN OF	91	201	08/25/88	$29,800	201	08/25/88	$62,300
WISCONSIN	PENCE, TOWN OF	92	201	09/12/88	$260,850	000	00/00/00	
ARKANSAS	MENA, TOWN OF	91	215	11/14/88	$160,000	000	00/00/00	

STATE NAME -----	BORROWER NAME --------	FUND CODE ----	LOAN STAT ----	LOAN STAT DATE ----	LOAN AMOUNT ------	GRANT STAT -----	GRANT STAT DATE -----	GRANT AMOUNT ------
KANSAS	GRIDLEY CITY OF	91	215	12/08/88	$160,500	000	00/00/00	
LOUISIANA	PINE PRAIRIE VILLAG	91	215	03/17/89	$320,000	000	00/00/00	
MICHIGAN	CLARE,CITY OF	92	215	01/30/89	$881,000	215	01/30/89	$642,000
MISSISSIPPI	GAINES TRACE WATER	91	215	02/15/89	$15,000	215	02/15/89	$36,000
MISSOURI	LOUISBURG, VILLAGE	91	215	02/24/89	$76,800	201	07/14/88	$212,046
NEW YORK	SCHUYLER FALLS TN	91	215	03/23/89	$305,000	215	03/23/89	$372,500
	MORIAH TOWN OF	92	215	03/22/89	$35,000	000	00/00/00	
	BURKE, VIL	91	215	03/08/89	$631,500	000	00/00/00	
	ST. JOHNSVILLE VILL	91	215	03/23/89	$200,000	000	00/00/00	
	DEXTER VILLAGE OF	92	215	03/22/89	$730,000	000	00/00/00	
	ALEXANDRIA, TOWN OF	92	215	03/08/89	$377,500	215	03/08/89	$217,300
	COPENHAGEN VIL OF	91	215	03/27/89	$253,900	000	00/00/00	
	YORK TOWN OF	91	215	03/23/89	$300,000	000	00/00/00	
	MOUNT MORRIS VIL OF	91	215	03/23/89	$339,700	215	03/23/89	$335,300
NORTH DAKOTA	KULM, CITY OF	91	215	03/06/89	$231,400	215	03/06/89	$90,000
	GACKLE, CITY OF	91	215	03/09/89	$260,000	215	03/09/89	$165,000
	HEBRON, CITY OF	91	215	03/06/89	$207,600	140	01/13/89	$240,000
OHIO	TUPPERS PLAINS-	91	215	03/02/89	$641,000	215	03/02/89	$187,000
OREGON	CHARLESTON SANITARY	92	215	02/07/89	$299,800	215	02/07/89	$118,000
	MADRAS CITY OF	92	215	03/14/89	$537,200	215	03/14/89	$760,800
SOUTH CAROLINA	MCCOLL,TOWN OF	92	215	03/23/89	$371,200	000	00/00/00	
TENNESSEE	ERIN CITY OF	91	215	03/21/89	$258,000	215	03/21/89	$447,000
	EASTVIEW, TOWN OF	91	215	11/16/88	$98,000	000	00/00/00	
TEXAS	AMHERST, CITY OF	91	215	01/19/89	$283,000	215	01/19/89	$335,000
WEST VIRGINIA	COTTAGEVILLE PUBLIC	91	215	02/02/89	$148,000	000	00/00/00	
	UNION-WILLIAMS	92	215	01/24/89	$540,000	215	01/24/89	$125,000
WISCONSIN	CRIVITZ VILLAGE OF	91	215	12/22/88	$117,000	215	12/22/88	$140,000
INDIANA	LAUREL, TOWN OF	91	230	11/02/84	$308,000	000	00/00/00	
MISSISSIPPI	NORTHWEST LOWNDES	91	230	12/20/81	$1,525,000	000	00/00/00	
MISSOURI	CASS CO PWSD NO 11	91	230	04/12/85	$850,000	000	00/00/00	
NEW JERSEY	MIDDLE TOWNSHIP	92	230	09/28/87	$1,008,500	230	09/28/87	$2,691,500
NEW YORK	CATSKILL TOWN OF	92	230	02/14/89	$280,000	000	00/00/00	
TEXAS	RICHWOOD, CITY OF	91	230	07/02/84	$53,000	000	00/00/00	
	RICHWOOD, CITY OF	92	230	07/02/84	$212,000	000	00/00/00	
	NEW TABOR WSC	91	230	05/17/84	$930,000	000	00/00/00	
	WESTBOUND WSC	91	230	05/17/84	$410,000	000	00/00/00	
	PEARSALL, CITY OF	92	230	04/09/85	$400,000	000	00/00/00	
	FROST, CITY OF	92	230	05/17/84	$475,000	000	00/00/00	
	WALLER,CITY OF	91	230	09/06/84	$490,000	000	00/00/00	
	WALLER,CITY OF	92	230	09/06/84	$160,000	000	00/00/00	
	WALLER,CITY OF	92	230	09/06/84	$350,000	000	00/00/00	

FARMERS HOME ADMINISTRATION
WATER AND WASTE DISPOSAL DIVISION
PREAPPLICATIONS AND APPLICATIONS
GRANTS ONLY
AS OF 04/21/89

STATE NAME	BORROWER NAME	FUND CODE	GRANT STAT	GRANT STAT DATE	GRANT AMOUNT
KANSAS	HORACE, CITY OF	00	101	02/06/89	$146,875
MINNESOTA	HARMONY, CITY OF	00	101	12/01/88	$1,023,000
NORTH CAROLINA	FAIRMONT, TOWN OF	00	101	12/15/88	$411,700
UTAH	HANKSVILLE	00	101	01/04/88	$135,000
WYOMING	YODER TOWN OF	92	101	02/13/89	$197,450
GEORGIA	GAY TOWN OF	00	112	09/07/88	$450,000
KANSAS	OFFERLE, CITY OF	00	112	02/27/89	$65,126
COLORADO	SUPERIOR, TOWN OF	00	120	01/31/89	$360,764
NEBRASKA	SALEM VILLAGE OF	00	120	01/27/86	$54,000
WYOMING	ALBIN	00	120	03/08/89	$138,450
	SHERIDAN JOINT POWE	00	120	02/27/89	$880,771
ILLINOIS	COTTAGE TOWNSHIP	00	130	03/09/89	$475,000
KENTUCKY	CANEY CREEK WATER	91	130	12/08/88	$300,000
CALIFORNIA	SCOTTS VALLEY, CITY	00	131	12/01/83	$60,000
ARKANSAS	NORMAN, TOWN OF	00	201	01/23/89	$250,000
	ODEN, TOWN OF	91	201	01/10/89	$42,320
MONTANA	MARTIN CITY WATER	00	201	01/27/87	$47,000
OHIO	NORTHWEST WATER	91	201	02/15/88	$76,000
OKLAHOMA	DILL CITY PUBLIC	91	201	03/06/89	$135,000

DROUGHT-RELATED WATER NEEDS

Senator GRASSLEY. As was discussed last week, a number of my constituents are facing severe water quality problems. Senator Harkin has also brought that out before this committee several times. And, of course, that is brought on not by whether or not we have been in a drought or whether we will be in one—we are in one.

Does the Farmers Home Administration intend to place any additional priority on these areas which are now experiencing severe shortages?

Mr. JOHNSON. We have not yet reached any decisions. We think it might take some special appropriation or legislation in order to accomplish that.

We certainly are looking at this in conjunction with our system of allocating resources through the priority point system that we assign to projects.

In our current methodology, we do not have any special criteria relating to the drought situation.

Senator GRASSLEY. Can you do that without legislation?

Mr. JOHNSON. We'll be happy to look at this and see what can be done. But when you open it up, you have to really define very clearly what type of assistance will be offered, or, otherwise, you run the risk of creating expectations of assistance that cannot be satisfied.

Senator GRASSLEY. No. 1, if you can do it, that would be the ideal way to do it.

No. 2, if you cannot do it because of statute, then I think anything you did along that line in the sense of requesting would help speed congressional consideration of it.

Do you feel the current program is adequate to handle the needs created by the drought?

Mr. **Vautour**. Senator, if I might address that. I think you are getting down to the nub of what we in the Department of Agriculture are looking at as alternatives to the "business as usual," if you will.

We all agree that there are limited resources available, that there is just not a bottomless pit.

We are going to have to use targeting. We are going to have to use some method, and I cannot tell you what that method is at this point. But I think we are going to have to use some method to allocate limited resources to areas of greatest need.

This is going to be true, I think, in terms of farm programs. It is going to be true in terms of housing programs. And, certainly I think it is going to be true in terms of the community development programs.

Again, as I say, I wish I were able to tell you that we do have the mechanism for it. But, unfortunately, we do not.

Senator **Grassley**. But are you implying that you are looking for a mechanism?

Mr. **Vautour**. Yes; we are.

Senator **Grassley**. OK. Thank you.

In this process, I think I would like to take this opportunity, of which I am sure you are aware, where we have $40 million in loan preapplications and $15 million in applications for grants just from the State of Iowa. Most of it is from areas most affected by the drought.

LEGISLATION TO ADDRESS WATER NEEDS

And now, in my next question, Chairman Burdick, I am not presuming that the committee is going to do anything in this area, but I want to ask the panel if the subcommittee were to consider a special allocation to deal with drought-related water quality problems, would the Farmers Home Administration be able to administer such a program?

Mr. **Vautour**. As it affects water and waste, within the confines of our programs, yes, we could.

But the correction of ground water contamination, obviously, would be a whole different field, which we are not capable of handling at this point.

Senator **Grassley**. Well, I believe at this point, we are talking more about just getting what we know would be quality water to places where they don't have it, either by a new well or by a pipeline from existing sources.

REPORTS CRITICAL OF FMHA

The National Commission on Agricultural Finance released its report in February which stated sufficient credit was available for agriculture. The report was critical of Government lending programs, such as the Farmer's Home Direct Loan Program. The Inspector General's Office has also criticized the Farmers Home Guaranteed Loan Program because, as the Inspector General's Office says, it feels the program is not serving those needing credit from Farmers Home.

Then, also, the General Accounting Office cited the losses within the Farmers Home and the need for more stringent criteria.

So, my question is this. In the face of these criticisms, I assume that you are working on things to respond to them. So what do you suggest needs to be done to resolve these questions?

I assume you agree with them. If you do not agree with them, please say so.

Mr. JOHNSON. Sir, we did have some concern about the numbers in that General Accounting Office report because they make conclusions based on some actuals and some projections.

Obviously, we do feel that much of that is resolved because we come before this committee and other committees on an annual basis, regarding restoration to our program levels and to our revolving funds, in which we have encountered losses, due to the subsidy or for whatever reason.

So we do feel that, certainly with the assistance of Congress, we can address these things.

In regard to our guaranteed program, I do believe we need to strengthen the quality of the loans. We are concerned because we are trying to shift to a guaranteed program and generate more interest in it with the lenders. Most of the activity we are having has been with commercial banks, as opposed to the Farm Credit System. So, we are looking at whether there may be some ways that the guarantee program could be enhanced. We don't want to use it for a program to bail out other lenders. Obviously, that is not our purpose.

We want the quality of these loans to improve. We think we have work to do in that area, and we are looking at how we can strengthen the quality of the loan. We are continuing to work closely with not only our people but also, for example, the American Bankers Association, independent bankers, and others as to how we can make this continuing effort in a shift to a guaranteed loan program. Did I answer your questions?

Senator GRASSLEY. I believe so. There might be some followup, but let me digest what you have said first. Then we will get back to you in writing.

Now I would like to ask about Federal Crop Insurance, please.

Mr. Marshall, last year, during these hearings, I submitted questions to you asking why vegetable growers in my State were not covered by Federal Crop Insurance. At that time, I appreciated your response so much that I want you to know that I brought your response along with me today.

Just as a refresher, you indicated to me that insurance is provided in areas where fresh markets are developed and published price information is available from a third-party source.

Your main point was that in establishing rates, reliable information on production yields and price was very necessary.

We did not plan it this way, but yesterday, a constituent came to my office to complain about not being able to buy Federal Crop Insurance. This family has been in the potato business for 75 years. They are contract growers, so an outside price is available.

They also live just 30 miles south of Albert Lee, MN, where potato growers are covered by Federal Crop Insurance. And yet, despite the fact they appear to meet all the criteria that you laid out to me last year, they cannot get coverage.

Now, in light of this case that I just brought before you, would you like to revise your answer from last year, because I think I can show to you that we have plenty of information available.

Mr. **Marshall.** I think the answer that I gave you last year was pretty good on that one. I think that we might not have had initiated from the growers a request to offer coverage in that area.

We try to respond to the needs of producers when we make decisions as to where to offer new crops or where to expand crops, and the decisions, the requests, are routed through our actuarial underwriting people. They scope out the program, and we address them as we can in some sense of priority, where the market indicates there is a need.

This may be one area where we have not heard from directly——

Senator **Grassley.** Well, you did say last year that they ought to gather information from the Extension Service and from affected ASCS offices in the effort to help your agency evaluate new programs for the State.

So, because these people were able to get disaster payments last year, the FCIC does not intend to use any of the information and estimates collected for purposes of this disaster assistance program in 1988.

It was a basis for them getting disaster aid, and this information—I know the redtape involved in going between the insurance, the people selling insurance, and my ASCS office, just for corn and soybeans. You know, there is an interrelationship there. We have that interrelationship, it seems to me, like for potatoes, now, and other crops.

We are spending a great deal of time and money to try to improve participation in this crop insurance program. The alternative crop producers that I have spoken with are some of the most anxious customers of the Federal Crop Insurance Program, and are probably the most anxious you will ever have.

I understand the need for a large enough universe to set actuarially sound rates, and I also understand your desire to have a stable marketplace available for issuing policies.

What I do not understand, though, is the lack of effort toward resolving these questions or coming up with other options to allow growers to be secure without disrupting our crop insurance program.

I received a proposal from an FCIC agent in Iowa some time ago. The proposal was sent up within the FCIC, and yet, nothing came of it.

So I want you to review that proposal because I think it responds in every way to what I thought last year were the legitimate points you raised. Maybe they were at that time. Maybe you didn't have any more information at that time than we have.

But I think with this additional information, we might be able to do something. That is my point.

Mr. **Marshall.** If the information is there that you describe, sir, we would be happy to take a look at it.

In this specific case, I do not recall a request being initiated by this group of producers. But we will be happy to look at it.

Senator Grassley. OK.

Well, you have an insurance agent that thinks they have the information. You have now something you didn't have last year. You had the Crop Disaster Program, where you determined the value of that crop. You have them only 30 miles, or maybe at the most 50 miles, from where they are already insured.

By the way, I know that there is, 100 miles away from the constituent I spoke of, probably another group of people that would like to have insurance. I don't know whether they had this disaster insurance, or disaster, last year, or not. So I don't know whether we got the same information.

But I think we ought to work and see if we can't get it some way.

Mr. Chairman, I am done.

I did have some questions that I was going to ask of Mr. Van Mark.

So, what I would ask, sir, is would you submit responses in writing for some questions that I have about your agency.

Mr. Van Mark. Yes, sir.

Senator Grassley. Thank you, Mr. Chairman.

Senator Burdick. And do it timely.

Senator Grassley. Thank you, again, Mr. Chairman.

Senator Burdick. Senator Kerrey.

RURAL ECONOMIC RECOVERY

Senator Kerrey. Mr. Chairman, I have some questions that I will submit for the record.

I would just like to ask some preliminary questions of Mr. Vautour.

My questions are prompted by one of the statements you made, in reference to the President's statement that rural America is heading in the right direction and that essentially the administration wants to continue to go in that same direction.

We have, I think most people would agree, some residual problems, and they are severe, in rural America. Most people I think would say that there is, in fact, a recovery underway relative to where we were in 1984, when I happened to be Governor of Nebraska.

How would you account for the recovery, the apparent recovery, given—and I would stress that—an acknowledgement of continued problems in certain isolated areas? What produced the recovery?

Mr. Vautour. Senator, the recovery that I think you refer to and that the President refers to, and that I have referred to on occasion, is a nationwide recovery. Basically, the bicoastal economy, from Portland to Miami, and from Seattle to San Diego, both of those areas are doing quite well. But that same brush did not spread evenly across rural America. There are pockets out there that desperately need help, and we are well aware of that.

We are also aware that we can provide some leadership. We can provide some aid in terms of water and waste, and this type of infrastructure program; but, in the final analysis, the success of rural development is going to be, to a large extent, dependent upon the desire and the ability of people at the local level to get involved. I would like to point out that the first town meeting on rural devel-

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Answer: The number of applications received for funding consideration for fiscal year 1988 was 54 totalling $12,236,725. For fiscal year 1989, 115 requests were received totalling $30,527,142.

Question: Also for this program, please provide the number of jobs created, businesses financed, and other measures FmHA has for evaluating projects.

Answer: The number of jobs created/saved through the Industrial Development Grant Program for 1988 is estimated by the grantees to be approximately 5,215. For 1989, 4,192 jobs are expected to be saved/created. Information on businesses financed or to be financed is not available at this time.

In 1989, we expect to obligate $6,500,000 to 36 grantees. Applications selected for funding indicate that the $6,500,000 of Industrial Development Grant funds will leverage non-federal funds in the amount of $23,957,720. In 1988, 27 grants were made and the grantees indicated that $67,891,000 of non-federal funds would be used in conjunction with the $6,500,000 Industrial Development Grant funds.

The criteria used to evaluate projects include population, economic conditions (i.e., unemployment rate and median household income). The applicant's experience in administering a rural development program, the availability of business or industry to locate on the industrial site, geographic distribution, substantial employment improvement, and the creation or preservation of jobs were also considered.

WATER AND WASTE DISPOSAL LOANS

I understand that only half the states coordinate municipal bond offerings through a statewide bond bank, that high transaction costs make direct bond financing all but impossible, and that the rural banking sector often has difficulty utilizing home mortgage guarantees that have been in existence for decades.

Question: Given these factors, what evidence can you provide to show that the rural banking sector, bond market or state governments will step in and provide resources to finance rural water systems based on guarantees?

Answer: The Administration's budget only provides for $50 million in loan guarantees out of the $250 million proposed for Water and Waste Disposal loans. Therefore, many FmHA applicants will not be dependent on obtaining a lender to make a guaranteed loan. Also, during the past two years many FmHA borrowers have purchased their FmHA loans at a discount from FmHA. Most borrowers accomplished this by borrowing the necessary funds from commercial sources. This has permitted many rural water systems to gain experience with other lenders and has permitted the lenders to gain experience with rural water systems. We believe that this experience will help to make more private credit available to rural water systems.

opment that I held was in Broken Bow, NE. As you are undoubtedly aware, they have done an outstanding job of pulling themselves up by their bootstraps. It was done primarily with local leadership.

That, essentially, is where we are.

I readily admit that there is a role for the Federal Government to play in rural development. But I think we have to look at it from the point of view that we do not expect that there is going to be a whole lot of new money to throw at this problem. I think we are going to have to work a little smarter. We are going to have to use those resources we have in a better fashion, and, as I mentioned earlier, targeting of those limited resources is one way we think we would like to pursue the problem.

Senator KERREY. I would just add to that, by the way, that it is important, at least in my observation, to point out that the dominant change has been the recurrence of income. After all, it was very difficult in 1984 to be very successful, even in Broken Bow, with rural development, when net farm income and interest rates, real interest rates, were as high as they were. The absence of net income made it very difficult for us to get much done at all.

I say this with all due respect to the rush for embracing free market economics. I find myself philosophically declaring my support for free market economics, but I look at the impact of the 1985 farm bill on rural America, and it was dramatic. I find myself saying that it worked in practice. There were lots of problems with it, but I want to make the point at the start of any discussion of rural development that not only income but the capacity to maintain the income is awfully important.

I would like to roll through a couple of questions that have some importance to me.

TAX TREATMENT OF RESTRUCTURED FARM LOANS

Mr. Johnson, I assume you have seen the letter from Treasury with regard to farm loan restructuring, as to whether or not, essentially, that reduced principal,was going to be counted as income or, more generally, how the IRS was going to treat restructured agreements.

I assume you have seen a copy of this letter?

Mr. JOHNSON. Sir, is that the one that is addressed to Chet Bailey?

Senator KERREY. Well, this one was addressed to me. That is how it happened to come into my possession, although it does not always come into my possession this way. [Laughter.]

Mr. JOHNSON. Obviously, then, I have not seen it.

Senator KERREY. It is signed by the Associate Chief Counsel, Richard Mahalik, and the date stamp on mine is March 30. So I assume that you have it.

I would like to pass you a copy of it, in any case, and have you look at it. I have several other copies. I want to make certain that if you don't share my sense of outrage at this letter, that you will acquire it.

There is a phrase in here that I find to be particularly representative of bureaucracies at their worst. The author says that he understands that not providing the relief from having to pay income tax on a reduction of principal might provide farmers with, to use a phrase as only the IRS can, "an unwarranted tax planning opportunity."

This is the sort of thing that we just cannot tolerate. You have to tell us what we can do to get a ruling that is satisfactory for you so that you can make some decisions on these restructurings.

I know you have to do that. I know that the tax consequences of conservation easements and all other sorts of things have to be resolved before you can do the restructuring.

Let me assure you, though I have taken a few shots at Farmers Home from time to time and I will probably do so again in the future, that I am here to cooperate and help you in this regard.

I just find this to be a terrible example of government gone mad.

For your information, when the IRS came before our committee, they indicated to me that they were pleased that in 1988, 65 percent of the questions that they had been asked they had answered correctly.

This is not a comforting fact to discover, by the way. [Laughter.]

FUNDING FOR WATER AND WASTE PROGRAMS

Senator Kerrey. In your testimony you also say that "we will be emphasizing the traditional water and waste disposal system loan program," Mr. Johnson. Then you request $130 million less for these loans than is being provided in the current year.

I guess I should be pleased that you did not deemphasize the program.

I am wondering how you reconcile this reduction with the statement that you are emphasizing the program.

Mr. Johnson. Well, obviously, the reduction in the amount is really to be consistent with the overall administration position regarding the deficit.

We believe that water and waste loans and grants certainly has been a worthy program, and that is the reason we requested funds for it. We think there is a place for the program.

We are requesting that we start shifting to a guaranteed emphasis, because we think there is going to have to be greater participation and greater involvement in working with local communities to resolve water and waste problems.

We don't think there is going to be enough money, certainly through Farmers Home, or through the Federal Government, to solve all of the community facility problems that we have. Priorities for health and safety purposes, as well as jobs, has been the direction we have gotten from Congress as to what we should be doing with our rural development programs.

FINANCING CONSTRAINTS ON RURAL COMMUNITIES

Senator Kerrey. Have you established a priority system that reflects the fact that many rural counties in America are up against either an imposed property tax lid or are struggling as a consequence of a declining base or some other event that may make it difficult for them to make this kind of capital expenditure? Do you have a priority system based on need in place?

Mr. **Johnson**. In allocating our funds, we do, of course, consider the income of the area. That is one thing, but I don't know that we look at the tax structure.

Interest rates for our loans are set taking into consideration a community's income, and then grants are made to those of the lowest income, the most distressed areas. That is where we utilize the grant funds. So, our assistance is based on the income of the people in that particular area.

Senator **Kerrey**. Is the relationship between interest and income direct or inverse? What is it?

Mr. **Johnson**. The most needy would get a grant and/or the lowest interest rates on loans.

Senator **Kerrey**. Are you using disposable income, or a net income figure?

Mr. **Johnson**. It is based on the per capita gross income.

Senator **Kerrey**. Let me just offer a suggestion for your consideration. I don't expect any action on this, but I know that we will have an opportunity to discuss this further. Very often, what I find is that the constraint that is the most difficult to overcome is the property tax base. There are instances in my State, and I suspect in others, where there is an imposed lid—in my State, it is 50 cents—and many of my rural communities are already up against that lid.

Any relatively small expenditures, let alone water and sewer costs, can be very difficult to afford when communities are bumping up against that lid.

I would urge you to please give some consideration to that problem.

Mr. **Johnson**. We would be very happy to discuss that with you and get a better understanding of your concept. I must admit that it is a fairly new concept in my mind. I have not really given thought to the tax because usually those types of things are controlled locally. We do not factor those kinds of things in.

But we would be happy to discuss this with you more and get a better understanding of your concept and see if it could be considered.

Mr. **Vautour**. Before we leave that, Senator, I would like to make the observation that, in the final analysis, the individual user's ability to pay to a large extent determines the amount of grant that would be given to that community.

So, in the case of a heavy tax base, in the case of low income, and when this is all factored together, if we made just a straight loan and we found that the sewer user was going to have to pay $1,000 a year, obviously it is completely out of line with the ability of that particular community or its residents to pay. The grant level would go up. To some extent we are doing what you are proposing. But I think what you are really saying is that it needs fine tuning, and I would agree with that.

PREPAYING REA LOANS

Senator **Kerrey**. Actually the question I was going to ask Mr. Van Mark next is how do you reconcile this ability to pay being factored in in a positive way with the apparent—and I say apparent, and you can tell me if I am wrong—factoring in a negative way when it comes to prepaying REA loans, where it appears, at least to me, that what you are saying is if you prepay the loan, we'll offer an incentive to prepay the loan; but we are also saying that once you have prepaid the loan, you must declare that you are not going to do any additional financing through REA.

The administration's position on this matter seems to be based on the view that REA's are now healthy financially, and the RTA's are healthy financially, and therefore maybe they don't need any additional financing. There seems to be, in that case, a negative correlation between economic health and the assistance given.

Mr. VAN MARK. Senator, I guess I don't see the negative connotation. For the RTB borrowers, the year where they had the opportunity to prepay their RTB loans without a penalty has now come to a close. It has been 2 years since we have allowed borrowers to prepay their low-interest loans to REA. That is where the concept of not seeking further assistance from REA was coupled with the discount.

But, remember, we do not want to concentrate on not coming back, because they could come back if they returned the discount to the Government with the interest that was realized.

BORROWERS' FINANCIAL HEALTH

Senator KERREY. I would just suggest to you, though, that as the FCC moves away from rate-based rate of return pricing into cost-based pricing, and they seem to be heading in that direction, we have some concerns in rural communities already that they may be left in the lurch with regard to telephone service.

Mr. VAN MARK. Senator, I understand. But lets look at all of our borrowers. On the electric side, there is a 37 percent equity, and TIERS, times interest earned ratio, are going up. The general funds level is going up; and we have approximately 8 percent of the plant value in general funds.

On the telephone side, we are experiencing the same thing: a little less average equity around the country, but the percent of general funds, or the general funds as a percent of plant value, is up to 17 percent. There is an awful lot of money available. We are very confident that the telephone industry and our telephone borrowers are very healthy.

Senator KERREY. I would agree that their status is healthy. The point I am trying to make is that you appear to be saying that, as their health increases, we would like to have them stop borrowing from REA and go instead to private borrowers; whereas, for waste and water loans and grants, you are saying that the ability to pay is a very important criterion, and we will actually draw a positive correlation between economic health and your ability to get a grant.

I see a difference in underlying principle.

I am asking if I see this incorrectly.

Mr. VAN MARK. Well, I guess I could be getting into water I cannot swim in when I talk about water and waste.

Senator KERREY. Or into water you don't want to swim in. [Laughter.]

Mr. VAN MARK. On the REA Program, I think you are exactly right. We are saying that the intent of Congress has been for REA to develop the borrowers to a point where they would be able to go to the private market and get financing and become less dependent on the Federal Government.

That is really the direction that we are trying to lead our program.

I would ask Mr. Johnson to address the other part.

Senator KERREY. My time is either running out or has already expired, but I have a quick question of FCIC.

Mr. Marshall, in reading your statement that I have, in exhibit I, where you cite loss ratios, you indicate that the loss ratio for Government operations and the loss ratio for reinsurance operations in 1988 was 2.75 in both cases.

That seems like either a coincidence, or that there are other factors involved.

Do you have a loss ratio of 2.75 in both operations just by coincidence?

Mr. MARSHALL. That is our best guess of the total systemwide, and we do not see a lot of disparity between the two.

Traditionally, they may have varied slightly. But we do not see a large discrepancy, usually in the loss ratios of the two sides.

Senator KERREY. That is based on actual experience, then?

Mr. MARSHALL. The estimate of 2.75?

Senator KERREY. Yes.

Mr. MARSHALL. That is our best estimate as of this date. We won't know until all the losses are in—as of this point in time, the actual that we are running is 2.3 on both sides. This is with loss information to date.

Now, there are still some in the pipeline that have not been paid, and we are still getting some claims in. Our estimate is that it will be somewhere between probably the 2.3 and the 2.75 that our last budget estimate was made on.

Senator KERREY. Thank you, Mr. Chairman.

Senator BURDICK. Thank you.

Senator Cochran.

RURAL HOUSING VOUCHERS

Senator COCHRAN. Thank you, Mr. Chairman.

Let me join you and other members of the subcommittee in welcoming our panel of witnesses this morning. We appreciate your cooperation with the subcommittee.

I notice that some of the questions that have been asked have dealt with rural development issues. I was wondering, Mr. Secretary, if we could turn for a moment to the issue of housing.

In the proposed budget, the housing programs which the Department administers would be eliminated or a new program would replace most of the traditional housing loan and grant programs with a $360 million voucher program.

This is not a new suggestion. We have had that recommendation submitted to the Congress before by the previous administration. I wonder what the rationale is for bringing that up again and pushing it as an alternative proposal.

Is there any expectation that this proposal will be approved or that we will not continue to fund the previously authorized and funded housing programs?

Mr. VAUTOUR. Senator, the rationale, obviously, is the budget. I think we are bringing it forth this time in a somewhat different manner.

The criticism that was leveled last year was that we do not have the housing stock available, so that the housing voucher program would work.

We are including $100 million in the rural rental housing construction program, 20,000 vouchers, and $30 million to be used for other housing programs. Some of the housing vouchers will be used in lieu of rental assistance contract renewals. In addition, FmHA will assist about 25,000 families through assumptions of existing mortgages where borrowers are wanting to move, or are unsuccessfully honoring their loan commitment, and through sale of homes from FmHA inventory through the mechanism of a credit sale.

In the housing voucher program pilot that was done by HUD last year, but targeted at rural America, I think we were allocated some 2,000 units, and 98 percent of those were used in the 13 pilot States.

We felt that with the combination of the safety net, in terms of housing stock, through the $100 million in the rental housing program, plus the fact that we have the 25,000 units that are available through either assumptions or inventory properties that we hold, and the 20,000 voucher units, that it could be and would be a workable plan.

BACKLOG OF SINGLE-FAMILY HOUSING APPLICATIONS

Senator COCHRAN. In my State we have a big backlog of applications for housing assistance, I am told. A number of applicants were turned away because of lack of funding.

The figures I was given for the low-income housing program in fiscal year 1988 are as follows: there were 9,850 section 502 applications. Of this number, only about 36 percent, or 3,500 applicants, received assistance. The remaining were either rejected—20 percent—or their applications were withdrawn or expired because of lack of funding—45 percent are in that category.

I am curious if this is a pattern nationwide. Is that the situation around the country, or is it not the case? Is there any evidence that demand for the section 502 funds is dropping off generally?

Mr. VAUTOUR. I would not say that they are dropping off, Senator, but I would say that they are being reallocated.

There are a number of States who did not use, and who historically have not used, the 502 allocations that are given to them. Obviously, administratively, through the use of pooling, we redistribute that money out to the areas of greatest need, Mississippi being one, North Carolina another.

I would tell you that my home State of Vermont, and New Hampshire, are others that are constantly in the pool and constantly using a great deal of the money.

Generally speaking, throughout the country, we have utilized all of the 502 money that has been allocated. It has been shifted around; it is not an even application. There are many States that do not use their allocations.

HOUSING VOUCHER DEMONSTRATION

Senator COCHRAN. Given the disparity that does exist from one part of the country to another, and from one State to another, I wonder whether or not we might try some kind of program like you suggest—a voucher program or call it what you will—as a demonstration program. Has this been done in some areas where it might be workable?

I do not think it would work in my State to provide any meaningful assistance to very many people.

Mr. VAUTOUR. We certainly would like to see that happen. We think that the demonstration project we had last year to some extent indicated the acceptance of this type of help in rural America. A voucher program can help the very low income, less than 50 percent of median income, more than it can help what we refer to as the low income, which is 80 percent of the median income in the area.

The housing voucher really is the bottom net that services the most needy. There will be many, many cases, for instance, where people would be applying for a 502 loan and would be turned down because of lack of repayment ability. The housing voucher is the unit that we think is most helpful to them.

Senator COCHRAN. Well, I am guessing that that is why the 20 percent in my State who were rejected probably fell in that lower income scale category, where their ability to pay off the loan was questioned.

Mr. VAUTOUR. Very probably. Yes.

COORDINATION WITH ASCS ON FARM LOAN ELIGIBILITY

Senator COCHRAN. Let me turn now to another question that I have.

One concerns the loans to farmers under the guaranteed loan program.

I understand that regulations have been issued by the Farmers Home Administration which requires entity loan applicants to be individuals and not other entities, and this affects whether or not some farmers are considered eligible for a guaranteed loan.

It has been brought to my attention that in some cases, Farmers Home regulation is more restrictive than required by the ASCS as to whether or not a farm plan is consistent with the Federal statutes and regulations dealing with individual eligibility for program payments.

First of all, I guess my question is, Is that true? Have I been given the straight scoop?

Are you interpreting eligibility for individual payments in a way that is different from ASCS?

Mr. VAUTOUR. Senator, I would ask Mr. Johnson to address that issue.

Senator COCHRAN. OK.

Mr. JOHNSON. Senator, yes, we have heard of a number of such cases from your State as well as other States. What appears to have happened is many of these family farm operators that we were working with had a general partnership. Say it was a man, his wife, and two kids. That is the entity we worked with. We dealt with them. They had all the assets and liabilities in this one group, this family.

But with the advent of the ASCS Program, a limitation I believe in the amount of $50,000 was set, as the most any one entity can receive. So what has happened, and has happened very prominently in Mississippi and in some other States, is that the people decided that the best way to do this was to set up additional corporations.

So, what they did was set up a corporation for, say, the wife and each of the two kids. So they may have had three corporations set up under the one general partnership, which would permit them to take added advantage of the ASCS Program and get more receipts from it.

So, instead of being limited by $50,000, if they had three of these subunits, they may have a limit of $200,000, in my example, which they could potentially get from ASCS in payments.

We have had great problems when we start dealing with all of these different entities, the general partnership and, also, the other corporations that were set up, in keeping up with our security and the flow of cash. They are really just set up primarily for the purpose of getting that ASCS benefit.

And yet, we have to keep our structure in a specific unit. We want one financial statement, if you will, instead of four financial statements that we might get from three separate corporations, and the one general partnership. So that is the dilemma.

We did change our regulations, in fact, last November, to say we will only accept a general partnership or a single entity, and we won't permit them to split off these other entities. This change did put us in conflict with the way ASCS is permitting their operation to work.

COORDINATION NEEDED WITH ASCS

Senator COCHRAN. Well, I am not familiar personally with any specific farming operation or applicant's problem. But I have been advised by members of my staff, who have been in touch with some applicants who have called our office for assistance in trying to reconcile the conflicting regulations of ASCS and Farmers Home Administration.

I must tell you that I feel a degree of concern and frustration for them if, in trying to satisfy the requirements of one agency, they end up making it impossible to derive benefits to which they may otherwise be entitled under the law from another Federal agency, and to satisfy one, they end up running afoul with another. That has a Kafkaesque kind of sound to it that is abhorrent to me.

I hope that you, with the Secretary's assistance, can get together with the ASCS regulators and reconcile your regulations.

That is a frustrating dilemma for a farmer out there. If you assume that somebody is violating a law, I think you ought to report it to the U.S. attorney. If you assume that somebody is not complying with a statute that this Congress has passed, well, then, report that, too.

But if you decide on your own to devise regulations or take it upon yourself to straighten out every wrong you perceive to be occurring out there in the farm country, and it conflicts with the agency that has the jurisdiction for administering those programs, then, I think you have gone too far. I hope you will reassess those, Mr. Secretary.

Mr. JOHNSON. We would be happy to do so. I have been in contact with Milton Hertz, head of ASCS, in recent days on this very issue.

Mr. VAUTOUR. Senator, you have my assurance that I will direct Farmers Home to work with ASCS. Now, I would hasten to add that I am not sure that the issue is totally reconcilable. But I share your concern. There may be legal ramifications that I am unaware of that would preclude such a thing. But certainly, you have a right to expect, and you will receive, my assurance that we will look into it and try to reconcile this problem, because it is as onerous to us as it is to you.

SENDING FARM LOAN APPLICATIONS TO WASHINGTON

Senator COCHRAN. I have no sympathy for somebody who is violating the law or who is engaging in a charade to get around the law. I have no sympathy for that at all. I do not want to be misinterpreted, but it just seems to me that the agency that is charged with the responsibility for administering the programs is ASCS.

I am told that I have not received a reply to a letter that I wrote to you inquiring about the problems relating to this regulation, specifically the guaranteed loan program regulations dealing with entity loan applications. The letter was dated March 13.

There is another problem that has come to my attention that is being experienced in my State. We have had some applicants who have sought approval of loan applications from the Farmers Home Administration being told that since our State had run out of money for direct operating loans, their entire file has to be sent to Washington and reviewed here. One farmer, for instance, had a loan application which was sent from the county office on March 10, and it is still here being reviewed. That is what I am told.

He is a peach farmer, and is expecting that his peaches will ripen soon. His problem is that if this loan is not approved, or if he does not find out whether it is going to be or not going to be, he is going to be in some serious financial difficulty. He is having a hard time getting a response.

First, let me just ask this question about the necessity for sending files of applicants to Washington for review and approval. Is that going on, and if so, why?

NATIONAL OFFICE REVIEW OF LOAN APPLICATIONS

Mr. JOHNSON. Yes, sir; it is going on for those States that have exhausted the allocations that were made to them actually for the full fiscal year. They have used all of their funds.

We do feel that we have adequate direct operating loan money to take us through the year, but we have to monitor it very closely, as we have done in the past 2 years. We have been successful in satisfying the needs with the funds available to us. We think we can do the same this year. We think we are going to be able to satisfy the ones in Mississippi, that you are particularly asking about.

But, in order to do that, rather than simply sending lumps of money out to the State, we started asking them to send in their hardship cases and those that they could not shift to the guaranteed program. First, we asked for basic information. They did not send the file.

But once they send us that basic information, we look at it and get a feel for the types of loans they are approving in that State.

In Mississippi, as an example, we were concerned about the quality of some of those loans being approved. We asked for additional information and wanted to look at some files because their operating expense was very high. Sometimes we are getting just rough ratios. But it appeared that loan applications were in such difficult situations that they probably should not be made. But, knowing that they had already been approved by the State when we got them, we realized that the primary reason that many of those ratios were being thrown akilter is the legislative requirement that we have to use average yields on production, as opposed to actual yields by the farmers. This is done where a drought has been on for repeated years.

It really is indicating to us that we are probably making some loans that farmers are going to have some serious problems with down the line because we are using average yields, which are yields that these particular farmers are not likely to achieve, even in a good year. And so, it does cause us concern. But we have a legislative mandate. Therefore, we have released them.

So we have gone back with a policy in Mississippi, now, that has said to them, after we have looked at these, we are saying we think you are being reasonably prudent in the types of loans you are approving, and, therefore, we are authorizing you, without sending any of these in, to continue to process those in which the farmers have been meeting their financial obligation in the past few years.

So, that is going to reduce the number that we look at.

But we did have this great concern, seeing the great difficulty that many of these farmers were getting into, and yet extending further credit to them when it looked like it may be a hopeless situation. But we did find that this average yield situation was throwing everything off.

NEW LOANS DELAYED BECAUSE OF RESTRUCTURING

Senator **Cochran**. One thing I am told that has delayed a lot of farmers from getting approval of their loans has been the priority given to the restructuring of loans that was required under the Farm Credit Act that the Legislative Committee reported out and Congress passed last year.

Is that a common problem that you had around the country this year, during this lending season?

Mr. **Johnson**. No doubt this is one of the most massive efforts that I can recall, in my years with this agency—the problem in meeting the responsibilities of the Agricultural Credit Act of 1987. We think it has been done.

I had a meeting with the Senate Agricultural Credit Subcommittee earlier in January over this issue. We had some very tight timeframes. We had 45 days in which the people were to respond, and we had 60 days to make a decision if we were going to be able to restructure.

I am happy to report to you that I think our people did an outstanding job. We authorized considerable overtime for our people. They worked on weekends, and they were shifted to high volume areas.

We think we have coped with the problem. But, in doing that, we had to concentrate essentially all of our energies and resources to accomplish restructuring, which meant that many of our other farmers and housing borrowers and others could not be served as soon as we would like. We were probably expending maybe approaching 80 or 90 percent of all our time and resources in going to work with those 66,000 extremely troubled borrowers for restructuring purposes and debt write-down.

Senator **Cochran**. Mr. Chairman, I have taken more than my allotted time. I want to thank you for your indulgence.

I have some other questions relating to the Federal Crop Insurance Program that I wanted to get to and a comment or two about REA, particularly the telephone loan situation. But I think I will submit those for the record, and ask the gentlemen to respond to those in writing for our hearing record.

I thank the chairman, and I thank the witnesses very much for their cooperation.

SUBMITTED QUESTIONS

Senator **Burdick**. Additional questions will be submitted by the following Senators: Grassley, Specter, Cochran, McClure, Harkin, and myself.

We are hoping that these questions will be submitted before the close of business today, and that you might be able to respond within 5 days.

Is 5 days too tough?

Mr. **Johnson**. We will certainly do our best.

Senator **Burdick**. We'll say 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FARMERS HOME ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

RURAL HOUSING VOUCHERS

According to the National Housing Task force, there are some 4.3 million households living in small towns and rural areas who have a serious housing problem. Of this number over 2 million live in substandard housing. There are over 200 non-metro counties with poverty rates above 20% (and occupied substandard housing rates above 10%).

Question: How will housing vouchers work in those areas in which there is a substantial amount of occupied substandard housing and little rental housing?

Answer: The budget proposal includes $100 million for Section 515 rural rental housing loans for areas where there is no adequate housing available for use with housing vouchers.

I question the availability of rental housing for use with your proposed voucher program. While the overall vacancy rate for rural rental housing is slightly higher than that of big cities (6.6 percent vs. 5.7 percent) much of the rural stock is substandard. It is my understanding that when you adjust the rural vacancy rate for things like availability of complete plumbing, heating systems, and physical deterioration, the vacancy rate drops about 4 percent.

Question: What evidence do you have that there is a stock of adequate housing available for use with the vouchers?

Answer: Based on last fiscal year's rural housing voucher initiative with the Department of Housing and Urban Development, some 2,200 housing vouchers were used in rural areas within just a few months. In addition, HUD estimates that of the 180,000 housing vouchers used as of December 1988, nearly 27,500 were used in rural areas that FmHA serves.

RURAL RENTAL HOUSING

It is my understanding that as of January 23, 1989, FmHA had on hand $1.46 billion--almost three times the appropriation--in applications for rural rental housing. FmHA had determined that these applications were, at least on a preliminary basis, eligible for funding. I understand that, as part of a preliminary review of these applications, FmHA determines that the community to be served does not have comparable rental housing available.

Question: Is this information correct?

Answer: The estimate of preapplications and applications on hand is correct. In most preapplications, however, the applicant's estimate of demand is preliminary and the request may really reflect a demand for rental housing with the deep tenant subsidies through rental assistance that FmHA can provide only with FmHA financing. Such demand may be satisfied with housing vouchers in rural areas.

Question: If your own agency has determined there is demand for assistance, how can the Administration argue there is virtually no need for a rental housing production program?

Answer: We are not making such an argument. We recognize that there are housing needs in rural areas and we are committed to meeting those needs within our budgetary constraints. We would go on to indicate that housing vouchers in some areas are needed in lieu of new construction, especially in areas with depressed economic conditions. Where there is continuing growth and/or limited housing availability, rental housing production may still be needed, perhaps using other, less expensive options.

In fiscal year 1988, FmHA received over 145,000 applications for single family loans. Of this number about 45,000 were rejected. About 35,000 received assistance and the remaining 100,000, who were determined to be eligible, did not receive a loan.

Question: Are these figures correct?

Answer: These figures are generally correct.

Question: Given this high level of demand and the agency's own determination that so many low income families were eligible for assistance, what is the rationale for elimination of this program?

Answer: As our budget proposal indicates, our elimination of this program is to focus the Agency's efforts and resources on very low-income persons and families in the most cost-effective manner primarily through rural housing vouchers.

RURAL RENTAL ASSISTANCE

The Administration does not propose any funding for rural rental assistance in fiscal year 1990. About 10,000 contracts for existing units expire in the next fiscal year. In addition, some rental assistance will be needed to ensure that Section 515 units subject to prepayment of loans are affordable.

Question: Do you plan to increase rents for those tenants, or do you plan to use about 50% of the vouchers currently targeted for new assistance, to renew expiring commitments?

Answer: To assure that no current tenant experiences a significant increase in rents, we anticipate using slightly over 50 percent of our proposed fiscal year 1990 rural housing vouchers to replace expiring rental assistance contracts and to assure that units in projects subject to prepayment are affordable.

RURAL DEVELOPMENT GRANTS

Over the last two years Congress has appropriated $13,000,000 for rural development grants.

Question: Please provide the number of applications received for that funding and the total dollar amount of those applications for 1988 and 1989.

I understand that in 1988, 20 percent of loan funds were loaned at five percent interest to communities with incomes no higher than 80 percent of the statewide non-metro median, and an additional 50 percent of funds were loaned at seven percent to communities with average incomes between 80 percent and 100 percent of the statewide non-metro median. That is, approximately $230,000,000 was loaned directly at below tax-exempt market rates.

Question: Are these figures accurate?

Answer: In fiscal year 1988, $88.0 million or 26.6 percent, of loan funds were obligated at the five percent interest rate, and $149.3 million or 45.2 percent, were obligated at the intermediate rate. This is a total of $237.3 million or 71.8 percent, of fiscal year 1988 funds.

Question: In cutting direct loans from $330,000,000 to $200,000,000, isn't the Administration proposing to reduce significantly the ability of these low-income rural communities that need financial assistance to build water and sewer systems?

Answer: The proposed fiscal year 1990 budget delineates the need for program services and the Agency's priorities. The FmHA will be an active and willing associate, working with rural communities to address their needs. The proposed budget also reflects the intent of the Administration to limit the growth of Federal outlays and reduce dependence on the Federal Government as a supplier of credit. With the proposed level of funding, we believe the Agency will be in a position to fund many needed projects and keep rural America growing.

QUESTIONS SUBMITTED BY SENATOR HARKIN

MEDIATION FUNDING

Under the President's budget proposal, funding for certified state mediation programs would drop from $3 million in FY 1989 to $2 million in FY 1990. I believe that these state mediation programs have avoided a lot of human stress and hardship, and have saved FmHA and our courts a lot of money.

Question: Could you provide FmHA's analysis and justification for reducing the funding for these mediation programs?

Answer: Once the initial requests for debt restructuring of delinquent FmHA farmer program loans have been processed in FY 1989, the Agency anticipates that new and subsequent requests for state mediation will drop sharply in FY 1990. The reduction from $3 to $2 million dollars reflects the anticipated level of state mediation grants that may be required in FY 1990.

Question: Under the Agricultural Credit Act, FmHA is required to supply a mediator in the debt servicing process, even if a state mediation program is not available. How is FmHA providing these mediators?

Answer: In states which do not have State Certified Mediation Programs, the state directors have been encouraged to utilize their contracting authority to provide mediators within their states. FmHA will continue to use the services of the Federal Mediation and Conciliation Service (FMCS) for training and/or mediation assistance in these states. The FMCS has advised the Agency that it will continue to assist states where they have the available resources.

Question: What will FmHA spend for FY 1989 and FY 1990 on supplying mediators?

Answer: The Agency has recently completed the calculations on debt restructuring for FmHA farmer program borrowers who requested debt restructuring. The mediation process has just begun for those borrowers who could not project a feasible plan of operation without adjustment of other lenders repayment schedules. The Agency at this time does not have sufficient data to determine what it will spend to supply mediators in states which do not have certified state mediation programs.

Question: What will the average cost per case be to FmHA where FmHA supplies a mediator?

Answer: At this time, the Agency does not have sufficient data to determine the average cost per case in states which do not have certified state mediation programs since the mediation process has just begun.

RURAL DEVELOPMENT FUNDING

Many communities in my state are facing serious shortages of quality water. I have heard firsthand of entire communities having to haul in water on a daily basis. Farmers have had to sell off their livestock because they lack water.

A good share of these water shortages are due to the drought, but much of the problem has been developing over the years as older sources of water proved inadequate either in quantity or quality.

There is a lot of interest in rural economic development this year, but I will guarantee you that no rural development is going to take place in a community unless that community has adequate quality water.

Here are some figures. For FY 1989 Iowa has been allocated $6.5 million in FmHA grant and loan money for water and sewer projects. However, there are now pending $60 million worth of applications for this money, the bulk of that for water systems. Nationally, there are over $1 billion in such applications, much more than twice the available money. Yet the President's budget calls for reducing funding for FmHA water and sewer grants and loans from an estimated $441 million in FY 1989 to $325 million in FY 1990.

Question: Could you provide for the Committee FmHA's analysis of the national need for FmHA water and sewer grants and loans and the portion of that need that can be met with the funding proposed in the President's FY 1990 budget?

Answer: We do not have survey figures on the need for water and sewer loans and grants from FmHA. We expect that with FmHA working with other Federal, State and local funding sources as well as with conventional lenders, many needed projects can be funded to help keep rural America growing.

Question: Bear in mind that these kinds of cuts are not new. If the 1980 spending is compared to the 1990 budget proposal, there would be a 74 percent drop in spending for FmHA water and sewer grants and a 64 percent drop in water and sewer loans. With these kinds of cuts, what would you recommend a community do when it is out of water, and there is no FmHA or state funds available and the community cannot qualify for other financing?

Answer: The proposed fiscal year 1990 budget reflects the intent of the Administration to limit the growth of Federal outlays and reduce the dependence on the Federal Government as a supplier of credit. The proposed budget outlines the need for program services and the agency's priorities. FmHA will be an active and willing associate, working with rural communities to address their needs. The proposed level of funding will permit the agency to fund many needed projects in rural areas.

It is also noteworthy that the FmHA budget proposal calls for a significant shift from FmHA insured to guaranteed loans for water and sewer funding, and a complete shift to guaranteed loans for FmHA community facility loans. Many communities will be unable to meet the requirements for guaranteed loans or afford the generally higher rates of interest.

Question: Could you please provide for the Committee the effect of the shift toward guaranteed loans on the ability of communities to qualify for and pay for guaranteed loans, and on the estimated number of communities that will be served by these FmHA programs?

Answer: A loan guarantee program would have an impact on communities traditionally served by Farmers Home Administration. Approximately 50 percent of the Community Program direct loans are made to applicants who serve low income families that qualify for the intermediate interest rate. The guaranteed loans will be made at a higher interest rate. Assistance to public bodies could be further affected since FmHA is prohibited from guaranteeing any loan or line of credit made with the proceeds of any obligation, the interest on which is excludable from income under section 103 of the Internal Revenue Code of 1954, as amended (IRC). Use of private sector financing, however, should save agency processing and servicing time. FmHA estimates 116 guaranteed community facility loans for a total of $50 million and 95 guaranteed water and waste disposal loans for a total of $50 million would be funded in fiscal year 1990.

With respect to shifting toward FmHA guaranteed loans as opposed to insured loans, President Bush's budget message states that "guarantees will assist more credit-worthy municipalities than direct loans have, leaving less credit-worthy borrowers to turn to State government or alternative financing sources."

Question: Could you provide FmHA's analysis of what constitutes a credit-worthy community and how many "more credit-worthy" communities there are in the U.S. and how many "less credit-worthy" communities there are?

Answer: A community is considered credit-worthy primarily based on its ability to repay a loan. Most communities with a FmHA guarantee would meet criteria for credit worthiness. As in the past, a few communities may need direct lower interest rate loans or grants, in addition to guaranteed loans, to make a project financially feasible.

Many communities will not be able to obtain State money and if alternative sources of funding were available they would not be in the running for FmHA funds anyway.

Question: What is a community and its people to do when FmHA is the only possible source of funding for vital water and sewer or community facility funding and FmHA turns them away?

Answer: The proposed budget for fiscal year 1990 contains direct loans for essential water and sewer facilities in the amount of $200 million and grants in the amount of $75 million. Applicants who are unable to qualify for a loan through the private sector even with an FmHA guarantee would have an opportunity for FmHA assistance through the direct loan and grant programs. FmHA will continue to work with all applicants to try to develop feasible projects.

Question: Is this budget proposal suggesting that our national policy now should be to let the lights go out in many of our smaller communities?

Answer: FmHA expects to continue to provide service to rural communities for essential rural development with the funding levels in the proposed budget.

Question: Could you please provide the figures on how much of the FY 1989 water and sewer funding is uncommitted at this time?

Answer: As of April 10, 1989, the water and waste loan and grant programs have unobligated balances of $135.2 million and $33.9 million respectively.

Question: Will the uncommitted money be pooled and redistributed, and if so when will this occur?

Answer: FmHA State Offices that had not used one-half of their initial allocation of funds by April 7, 1989, had the difference between one-half of the initial allocation and what they had obligated by April 7, 1989, pooled into a National Office reserve. These funds will be reallocated to states that need the funds. On August 4, 1989, we plan to pool all unobligated funds into the National Office reserve to be reallocated to permit funding of needy projects.

Question: What criteria are used to decide how to reallocate the pooled money?

Answer: Projects previously obligated by FmHA that require additional funds to complete the originally planned work are funded first. The remaining funds are used for projects that have a high priority. Priority is determined by considering factors such as health, income, population, etc.

Question: There is a real need to get money to states that have severe shortages of water. What will FmHA do to achieve this?

Answer: Our priority system tends to direct funds to projects with the greatest need. Also, we believe that our process of initially allocating funds by state and then pooling two times per year has permitted us to reallocate funds on a timely basis to states that have needy projects.

QUESTION SUBMITTED BY SENATOR MCCLURE

GUARANTEED LENDING

Mr. Chairman: I appreciate the opportunity to ask a few questions of the USDA representatives before us today. Mr. Vautour, Mr. Johnson, Mr. Marshall and Mr. Van Mark, thank you for attending and offering your testimony on the FY 1990 budget.

Question: Mr. Johnson, I see that the trend away from direct lending to guaranteed lending continues in this administration. While I tend to agree with the concept, I am concerned that this program does not meet the needs of farmers in areas where the local or regional lending entities, such as state or regional banks or savings and loans, are simply not interested in making guaranteed loans. Idaho seems to be in this situation. Last month, as second quarter farm operating funds were depleted, farmers came to me requesting additional funds. I contacted the Idaho Farmers Home Administration Office and was told that there were more than adequate guaranteed operating funds available if the borrower could find a bank which was willing to make the loan. I began to recommend that borrowers go to the local banks and request a guaranteed loan. One woman called back and said that she had gone to a local bank and was told that they do not make guaranteed loans with FmHA. The need for FmHA loans is real, the lack of interest of some banks is real. What are farmers to do if FmHA is out of direct operating funds and local banks will not make use of the guaranteed loan program?

Answer: FmHA county supervisors are using all of their authorities including loan guarantees and subordinations to assist applicants in obtaining credit elsewhere. If a lender is not willing to make a loan with or without the use of the guaranteed loan program and the applicant owes FmHA direct loans, FmHA will consider subordinating its lien position to allow another lender to make the loan. As of February 28, 1989, FmHA had issued to other lenders 8,268 subordinations totaling $303.9 million. If a particular lender is not willing to extend credit under any of the above conditions, the applicant should apply to other lenders, including the Farm Credit System. States that have exhausted their direct operating loan allocation can request additional funds to make direct loans to these applicants out of the FmHA National Office reserve after it has been determined that credit is not available by any of the above described methods. It should be noted that through "Operation Assist," an FmHA innovation, county office personnel take an active role in securing guarantees for farmers who might otherwise not obtain operating credit. Last year, this approach helped 2,671 borrowers obtain quaranteed loans totaling $194 million.

Question: What provisions can be made to aid these farmers when the banks refuse?

Answer: Some commercial lenders are unwilling to assume high risk guaranteed agricultural loans because they feel the risk involved is greater than what their lending institutions can bear. There are a number of steps an applicant can take in obtaining credit elsewhere. The applicant may have his loan subordinated, in which case FmHA will consider subordinating its lien position to allow another lender to make the loan. An applicant may apply to Farm Credit System lenders if he has problems obtaining a loan with any particular lender. Finally, he may apply for additional direct funds from the National Office reserve if it has been determined that he cannot obtain credit through any of the above methods.

Question: Under the Rural Development programs you are requesting $200 million for direct Federal loans and $75 million in water and waste grants. I was recently contacted by the Mayor of Salmon, Mr. Jack Nelson, who has been involved in preparing a loan and grant application from FmHA for assistance in building a new water treatment facility in Salmon, Idaho. I want to encourage you to look closely at this application when it comes to you in Washington. Salmon is a small town in eastern Idaho. Last year their 30 year old sand filter system failed, and the local residents had to boil all their water used for drinking and cooking or suffer the effects of a parasite known as Garidia. Last week Salmon passed a $1.5 million bond to cover part of the cost. They need Federal assistance on the balance of the project. Please review this request carefully. I would like you to advise me when you receive it and when a decision is made on the request.

Answer: The Idaho FmHA State Director has requested funds from the National Office reserve for part of the city of Salmon project. The State Director's request will be considered for funding along with all others on hand. FmHA will do everything possible within its authorities and available funds to provide assistance on the Salmon project.

Housing Inventory Property

Question: In your statement you mentioned that primary housing problems in rural areas is affordability rather than availability. How many single housing units does FmHA have in inventory?

Answer: As of April 11, 1989, there were 10,173 units in inventory.

Question: How many are in Idaho?

Answer: In the State of Idaho, FmHA had 217 units in inventory as of March 31, 1989.

Question: Could you provide me with a list by office in the State of Idaho?

Answer: [The information follows:]

Single Family Housing Inventory Properties in Idaho as of March 31, 1989

District	County	No.
I	Coeur d' Alene	22
	Grangeville	15
	Lewiston	4
	Sandpoint	4
II	Caldwell	33
	Emmett	7
	Marsing	9
	Meridian	15
	Mountain Home	8
	Payette	6
	Weiser	8
III	Gooding	4
	Jerome	5
	Rupert	28
	Shoshone	4
	Twin Falls	5
IV	Blackfoot	12
	Malad City	2
	Montpelier	3
	Pocatello	1
	Preston	2
	Soda Springs	0
V	Arco	1
	Idaho Falls	3
	Rexburg	8
	Rigby	0
	Salmon	8

INVENTORY PROPERTIES

Question: I am also interested in the number of farms in inventory in Idaho. How many of these inventory properties will have characteristics which will allow them to be transferred to agencies such as the Idaho Fish and Game because they have wetlands or other wildlife habitat features?

Answer: Of the 170 Idaho FmHA inventory properties, 22 have been designated by the Fish and Game Agency as having wetlands or other wildlife habitat features. The Fish and Game Agency has requested all 22 of these farms be transferred to them. However, the FmHA county supervisors recommend that only 6 of these properties be transferred.

Question: I understand that under an Executive Order signed in 1979, any State Agency of Fish and Game or Wildlife can review all FmHA inventory property and request transfer of the land to their control or else easements which will make the lands more difficult to farm, thus less attractive to potential buyers. How many acres nationwide will be subject to this review?

Answer: Two Executive Orders issued in 1977 (Executive Order 11988, Floodplain Management, and Executive Order 11990, Protection of Wetlands) require Federal agencies to protect floodplains and wetlands on Federally owned property prior to its sale to non-Federal entities. A normal method of doing this is imposition of a deed restriction. The land is not transferred to a Federal or state agency but is sold to a private party subject to the deed restriction.

Approximately ten percent of the farms we own are subject to these easements, with only a portion of the farm affected. Wetland easements protect the wetlands from agricultural conversion but most floodplain land that is in agricultural production can continue to be cultivated.

Question: How many acres could potentially be taken off the tax rolls by this Executive Order?

Answer: No acreage is taken off the tax rolls because the farm is returned to private ownership with a portion of the farm subject to the deed restriction. Some localities may reduce the tax assessment on the easement land.

QUESTIONS SUBMITTED BY SENATOR SPECTER

Question: Rural water supplies and quality drinking water continue to be of concern across rural America. The Department of Agriculture, under Section 306 of the Consolidated Farm and Rural Development Act, is authorized to provide project grants in rural communities to address problems of water quality and waste disposal. Grants are used for water and waste disposal projects serving the most needy communities to alleviate health hazards in rural areas. The Fiscal Year 1990 USDA budget proposes a decrease of 32 percent from Fiscal Year 1989 budget. With the growing concern for quality drinking water for rural development, how is a decrease in funding justified?

Answer: The proposed fiscal year 1990 budget will permit FmHA to fund many needed rural water projects. The proposed budget sets out the need for program services and the agency's priorities. Also, the proposed budget reflects the intent of the Administration to limit the growth of Federal outlays and reduce dependence on the Federal Government as a supplier of credit.

RURAL RENTAL HOUSING PROGRAM

Question: The Rural Rental Housing Program is designed to provide moderate rental housing for elderly, handicapped persons or families of low, very low and moderate income in rural areas. It is my understanding that there are over two million rural families living in substandard housing, with many well below the poverty line. The Fiscal Year 1990 budget contains a decrease of $454 million for rental housing loans, leaving $100 million for the program. How does the Department justify such a decrease?

Answer: We remain committed to assisting very low-income rural families improve their housing conditions. We believe that we can assist such families effectively with rural housing vouchers in many areas where there is available rental housing. Where there isn't, we would continue to provide our current Section 515 financing to meet their housing needs.

FEDERAL CROP INSURANCE CORPORATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

INTERIM REPORT OF THE COMMISSION FOR THE IMPROVEMENT OF THE FEDERAL CROP INSURANCE PROGRAM

Question: In its Interim Report issued last week, the Commission for the Improvement of the Federal Crop Insurance Program recommended 26 administrative changes for implementation by July, 1989. Would these recommendations require additional staff or merely a shifting of priorities?

Answer: Most of the Commission's recommendations address matters that are a part of the operational activities of the FCIC and therefore would not require additional manpower. There would be, in order to meet ambitious timeframes, an acceleration of activity and thus some shifting of priorities. In the case of the recommendations regarding account executives and improved oversight, the FCIC has already begun to accommodate these recommendations as a result of earlier management initiatives and has planned for the additional manpower required within previous ceilings.

Question: Which, if any, of the administrative changes are currently underway?

Answer: The FCIC has action underway on a number of the actuarial and policy recommendations, however these will require some consideration for the implications for actuarial soundness and budgeting demands. It is anticipated that many of the recommendations can be accommodated in some form for the 1990 crop year.

The management recommendations which the commission has proposed have, in the main, been underway within the FCIC for some time. The improvement of the procedural reviews of the companies, the use of account executives, the implementation of the tolerance and planning processes, and the early release of program information will be pursued and implemented within the 1990 crop year timeframe.

FARMER PARTICIPATION

Question: Since 1979, FCIC has vastly expanded crop insurance to most crops and counties. What is the percentage of actual participation?

Answer: Attached is a table showing, by crop, participation for the 1988 crop year.
[The information follows:]

AVERAGE PARTICIPATION RATE
1988

CROP	(Acres in Thousands)		PERCENT
	POTENTIAL	NET INSURED	INSURED
ALMONDS	406	92	22.7
APPLES	391	46	11.8
BARLEY	7,749	3,289	42.4
BEANS, DRY EDIBLE	1,498	511	34.1
BEANS, CANNING	219	9	4.1
CORN	63,472	13,426	21.2
COTTON, UPLAND	12,310	2,702	21.9
COTTON, AMER-PIMA	187	2	1.1
CRANBERRIES*	26	4	15.4
CITRUS TREES	N/A	28	N/A
CITRUS	832	53	6.4
DRY PEAS	181	58	32.0
FIGS	18	3	16.7
FLAX	275	58	21.1
FORAGE PRODUCTION	720	3	0.4
FORAGE SEED	N/A	1	N/A
GREEN PEAS*	294	96	32.7
GRAPES	755	43	5.7
GRAIN SORGHUM	9,810	1,444	14.7
HYBRID SEED CORN	N/A	271	N/A
HYBRID SEED SORGHUM	N/A	3	N/A
MACADAMIA NUTS	17	1	5.9
MACADAMIA TREES	17	1	5.9
OATS	6,424	565	8.8
ONIONS	57	7	12.3
POPCORN	N/A	43	N/A
PEACHES	91	36	39.6
PEPPERS	N/A	3	N/A
PEANUTS	1,648	916	55.6
PRUNES	76	13	17.1
POTATOES	1,244	193	15.5
RAISIN	272	223	82.0
RICE	2,928	471	16.1
RYE	791	6	0.8
SAFFLOWERS	N/A	26	N/A
SOYBEANS	58,870	11,975	20.3
SUGARBEETS	1,327	338	25.5
SUGAR CANE*	719	18	2.5
SUNFLOWERS	1,938	910	47.0
STONEFRUIT	98	4	4.1
SWEET CORN, PROC*	459	109	23.7
SWEET CORN, FRESH*	57	21	36.8
TABLE GRAPES	84	5	6.0
TOBACCO*	632	266	42.1
TOMATOES, PROC.*	279	60	21.5
TOMATOES, FRESH*	70	18	25.7
WALNUTS	176	3	1.7
WHEAT	58,977	18,945	32.1
TOTAL	236,394	57,318	24.2

NOTE: Does not include Puerto Rico Data or Nursery Stock.
* Denotes Harvested Acres
N/A - Not available or not applicable

Question: Why does FCIC continue to establish participation goals that exceed actual participation?

Answer: The measure of participation is inexact due to the impact of prices on premium, the impact of other USDA programs on available acreage, and the identification of producers who would truly be candidates for insurance coverage. Our budget request for 1988, submitted in March 1987, was only about ten percent over actual participation, and for 1989 we may have underestimated the level of sales. We are refining our measurement methods and will continue to do what we can to furnish useful data to the Committee.

Question: Has FCIC considered any pilot programs to test the impact or feasibility of certain efforts to broaden participation further? If so, please describe these efforts.

Answer: The FCIC currently has initiatives underway which involve all aspects of the insurance delivery systems in the development of a comprehensive, strategic, marketing plan. The preliminary report of this group is currently being reviewed and we intend to implement many of the recommendations for the 1990 crop year sales effort. In addition, we are seeking to obtain legal approval to formalize the structure of the group to provide ongoing input for marketing efforts.

FINANCIAL STATUS OF FCIC

Question: What is the loss ratio for 1988?

Answer: Current estimates show premium for reinsurance operations at $373 million with indemnities of $1,026 million, and $62 million in premiums handled by master marketers with indemnities of $170.5 million. The combined results of the two delivery systems show total premium amounting to $435 million, and total estimated indemnities of $1,196.5 million, for a combined loss ratio of 2.75, as of January 1989. We are hopeful that when the final numbers are in, the loss ratio will be less than 2.75. As of April 7, 1989, actual losses of $1,045 billion had been paid for crop year 1988, and the actual loss ratio was 2.4 as of that date.

Question: Is the drought the principal cause of FCIC losses in 1988?

Answer: Yes, the severe drought was the principal cause of FCIC losses in 1988, especially since the actual total premium of $435 million was very close to the budgeted premium estimate of $425 million, as per the Fiscal Year 1989 budget submission.

The FCIC anticipates that total losses will, as my statement indicated, exceed $1.2 billion for a loss ratio approximating 2.3. Drought, or lack of moisture, is the principal cause of loss in normal crop years, and its position for 1988 is not unusual.

Question: Are you confident that the Commission will recommend a viable plan for assuring farmers that crop insurance coverage provides adequate protection against disaster, even in light of drastic circumstances as widespread drought?

Answer: The Introduction to the Commission for the Improvement of the Federal Crop Insurance Program April report notes and supports Congressional and Departmental emphasis that the crop insurance program be the principal disaster assistance program for producers. The expansion of the program to reach all significant crops in major growing areas will take some time in order to avoid the problems encountered in the early 1980's. Catastrophic loss risk management is a decision which must be embraced by all producers to whom it is available. We believe that the Commission's efforts, in conjunction with Congressional support, will contribute to that goal and lessen pressures to consider alternatives.

Question: Mr. Marshall, your 1990 budget includes a transfer of $175,000,000 from the CCC to FCIC, $125,000,000 less than in 1989. Is this a realistic assumption?

Answer: We try to make all estimates as realistic as possible. The amount of any estimated transfer to be required by FCIC from CCC is heavily influenced by estimated premium and the estimated loss ratio for any crop year. At this point in time, our budget estimates are as accurate as possible with the information available to us at the time the budget was finalized (December 1988). However, program participation data is being closely monitored by FCIC and the Department, to assure that funding sources are adequate.

EXPANDING CROP INSURANCE IN UNSERVED AREAS

Question: The Interim Report of the Commission for the Improvement of the Federal Crop Insurance Program suggests that the current sales commission scheme is a principal cause of low participation in areas dominated by small farms. Mr. Marshall, do you have any ideas for improving incentives for crop insurance sales in these areas?

Answer: We are exploring the following incentives in response to Commission recommendations for improvement of sales:

Incentives to Increase Participation by Small Farm Operators

RECOMMENDATION: Implement a minimum commission payment or a flat payment as an incentive to expand the program in areas with small farms and low participation.

Under consideration is that FCIC, in cooperation with industry representatives, continue to study this issue for the purpose of developing a minimum commission payment per policy to agents or companies to encourage sales in areas of low participation prior to the 1990 crop year. It is anticipated that existing information along with information from the Arthur Andersen & Co. study, currently being conducted, will provide the necessary background for such implementation.

Incentives for Underdeveloped Markets

RECOMMENDATION: Develop financial incentives to compensate agents and companies for the special efforts needed to maximize participation in the undeveloped insurance markets.

An incentive plan could be developed with input from the Marketing Committee, which includes representatives from Independent Insurance Agents of America, Professional Insurance Agents, American Association of Crop Insurers, Crop Insurance Research Bureau, contractor associations, FCIC and Extension Service. A concept paper along with the results from the Arthur Andersen & Co. study will result in a review of FCIC's present expense allowance provided to the Company/Contractor, and possible revision by July 1, 1989, applicable to crop year 1990 business.

Question: Would adoption of "set payments per policy" be a costly alternative?

Answer: Any increases in compensation which may be proposed must be weighted with the true potential for business in the underdeveloped areas. It should be recognized there may be areas where it is economically not feasible for a company or the FCIC to provide traditional marketing approaches for the potential acres available. Under this scenario, other avenues such as direct mail delivery of an insurance offer or other non-traditional service concepts may be considered.

Question: What efforts would you suggest to maximize crop insurance for minor or specialty crops?

Answer: A major marketing effort could be conducted through a coordinated tactical and strategic approach to specialty crop growers associations. Approachs developed by the joint industry/Extension/FCIC Marketing Committee could include strategies such as identification of crop and dollar potential, target advertising, review of rates and coverages, define marketing strategies, and designing the product (crop policy) to reflect the needs and perceptions of the producers, etc.

Question: What steps are underway by FCIC to address GAO's 1988 report recommendations pertaining to farmer participation in crop insurance?

Answer: Attachment II from the Marketing Plan reflects the concensus and approach of the Marketing Committee to the GAO's 1988 report on farmer participation.

[The information follows:]

ATTACHMENT II

AGREEMENTS

GAO Report - Why Farmers Choose Not To Participate In Crop Insurance

Climatic conditions - I doubt that we'll have a whole lot of impact on that one.

Condition of farm economy we'll not be able to influence that

Crop diversification we're not going to be able to influence that

Crop tolerance to disaster we're not going to be able to influence that

Distrust of federal programs this one specifically maybe we can do something about, but the in general, no.

Federal farm program conflicts no.

Complex record keeping system

Use ASCS established yields to key base insurance coverages with the ability to prove upward for those people that keep records.

(general agreement)

Costly premiums.

With some exceptions, this is a perceptual problem. Added educational efforts can minimize this perception.
(general agreement)

I'm concerned on this one of that old history that's being used in rating situations that couldn't happen again under todays program, but they are there. (examples: crop policies may have changed, crop varieties change, farming practices change, etc.).

My feelings is that the marketing side has had very little input on program changes, gets back to finding an environment to facilitate involvement. It's more than just getting the players involved, but also getting in any product, in any insurance program you've got to have the marketing impact evaluated on any proposed program change.(general agreement)

Case discount for pay up-front and we talked for good experience discounts.

The incentives part.

General discussion

No objective evaluation of agent performance has yet been possible because of, one, the continuing changes procedures; two, the complexity of the program; and three, the low level of economic incentive available. FCIC has constructively begun to address the change issue, assuring some program stability through its freeze on program changes. Agent experience will grow through this period. However, fundamental simplification of the product will be essential for further progress.

No objection evaluation of agent performance has yet been possible because of the continuing changing procedures and the complexity of the program. Agent performance and the presence of under-serviced areas are also seen as directly connected to the commissions available in relation to the time and costs involved in selling it.

A statement that reflects and legitimizes the committee and how they hope to achieve more synergy among the industry to expand participation and more professional focus on the part of all participants in the industry.

Limited coverage
Although some of these perceptions are and will continue to be addressed through improved education and understanding of the program, the perceived need for higher levels of coverage still should be evaluated on a crop by crop basis. However, the program needs to avoid coverage levels so high that they would give positive incentives to farming high risk marginal land. We agree that the availability of coverage from one state to another deserves to be standardized, as long as the insured crop are of economic significance in those states.

The issue of underserviced areas has been resolved through the use of the 800 agent finder number. FCIC has agreed to refer these requests to the private sector. To date, these requests are generating the required service.

No assured payments

Unlike other Government programs in which farmers participate, the crop insurance program does not guarantee annual payments. Thus, some farmers see little reason to purchase crop insurance because they have no assurance that it will result in a future return on their premium investment.

Maybe I'm saying too much, but how about "this is a realistic pragmatic judgment similar to limiting insurance on an older car to liability. It needs to be understood that these acres do not need servicing, nor should they be included when evaluating the relative success of the crop insurance program."

Do you just want to leave this one and go on? That would be my recommendation.

In minimize this perception. (general agreement)

Delivery system conflicts

We support the continued efforts to assure a level playing field for both delivery systems. The best efforts of FCIC through both delivery systems are essential in a competitive environment to attain maximum participation and program integrity.

General comments:

There's another area we can agree on and that is that in order to achieve all of these participation levels that are going to be necessary for the program to survive, itself, it is going to take the best efforts of everybody involved in this ball game and I don't care whether it's federal or private paper. (general agreement)

Farmer optimism

One of the things we can do to overcome a producers tendency to underestimates risk is further education in areas of risk management. Provide the tools to allow the producer to assess risk from real experience and drives home the point that optimism may be unfounded?

Frequent program changes

FCIC is commended for stabilizing the program through the freeze and more timely filing of rates and rules for '89. However, the current product and proposed changes should be evaluated for marketability prior to implementation. This advisory committee represents a first step in this process. (general agreement)

Limited coverage

FCIC is encouraged to continue a plan of aggressive program expansion. Actuarial reviews are recommended in situations where the calculated insurance yield understates the productivity of the farm.

Insurance agent programs

Program simplification and program stability will greatly reduce error rates. Improved and intensived agent training programs are being implemented. To the industry, errors cost companies money that they aren't getting reimbursed for FCIC should provide stronger economic incentives for agents to increase marketing efforts in areas with small or few farms.

Insufficient education efforts

Despite the GAO assertion, substantial educational efforts have been done with commercial growers. Industry and FCIC are now working together to better coordinate efforts to reach a broader segment of the market with the goal of increasing farmer participation. (General agreement)

Rate structure problems

FCIC's rates may not always reflect the actual risk level of individual farmers and because rates are established during the previous crop year, price elections may not always reflect the current year's crop prices.

Issue not addressed:

Poor investment for low value crops

Issue discussed but no agreed upon statement-see summary report

Self insured farmers

EDUCATION AND TRAINING

Question: Another area included in the Commission's Interim Report relates to education and training. What is FCIC doing currently to educate farmers and insurance agents about crop insurance?

Answer: Currently FCIC has a two-pronged effort aimed at educating farmers and agents. One initiative includes utilization of the Extension Service in promoting grower awareness of risk management. The following Extension Service educational efforts were conducted during 1988:

EXTENSION/FCIC ADVISORY COMMITTEE PROJECTS FOR 1988

STUDY

1. Delaware Demand Study
2. Nebraska/Educational Program Publications
3. Michigan State/Computer Model Study
4. Kansas State Project
5. National Extension Workshop/50 Extension Service states participated.
6. Risk Management Strategies: Utilizing multiple peril crop insurance. A satellite video conference broadcast to selected states in the United States.
7. Kentucky 7 State Project/combination of various started projects.
8. "Evaluation of the Usefulness of Multiple Peril Crop Insurance" in selected states-brochures.

In addition to the above educational efforts, in 1988/89 the FCIC will have provided 54 written articles on crop insurance for publication in various state, regional, and national publications. Individually, the companies and associations have expended considerable editorial and promotional efforts, aimed at educating the producers on the value of crop insurance.

TRAINING

Although it is the reinsured companies' responsibility to provide agent training, the FCIC has oversight and approval authority of agent training programs. Agents of Agency Sales and Service Contractors are currently required to attend training sessions and pass FCIC administered certification tests, to assure that all activities of agents are in accordance with contract language and FCIC procedures. Agents for both sides of the delivery system are required to hold a valid State Insurance License.

Question: What types of education programs do you think will be implemented as a result of the Commission's recommendations?

Answer: One consideration is the establishment of a national committee for the purpose of planning and developing an educational program to better educate the Ag lenders, including bank examiners, on the value of crop insurance as a risk management tool. The educational efforts will be reviewed by the Marketing Committee, which includes industry and agent associations, FCIC, and Extension Service, to define strategies, common themes and trackable goals and objectives.

The Extension Service would provide the leadership in formulating this program. The program would be developed for ASCS, Extension Service, FmHA, SCS, the insurance industry and Ag lenders at the local level, and would be designed to improve the understanding and increase the availability of crop insurance information to all agricultural interests.

IMPROVING AUDITS PAYMENTS

Question: Has FCIC been able to recover excess payments made as a result of procedural errors reported by GAO in 1987?

Answer: The GAO Audit of 1985 claims stated that reinsured companies overpaid 113 claims in the amount of $2,935,545 and underpaid 14 claims in the amount of $31,989. FCIC conducted a follow-up review of these claims and issued final determinations to the reinsured companies. FCIC disagreed with some of the GAO findings that were incomplete, inaccurate, or recommended recoveries which FCIC was advised by legal counsel it could not pursue or collect. In some cases, GAO personnel did not contact individual producers to verify or validate information, subsequently reporting inaccurate findings. FCIC has issued final determinations to the reinsured companies on 95 claims for reimbursement of overpayments in the amount of $1,210,489 and 17 claims for payment of underpaid claims in the amount of $43,484 as of April 14, 1989. FCIC has yet to issue final determinations on 10 policies which were forwarded to the Office of Inspector General - Investigations (OIG) by GAO or FCIC for possible criminal investigation. FCIC intends to issue final determinations upon the completion and release of the OIG Investigative Reports.

Question: What amount has been recovered? What amount is outstanding?

Answer: FCIC has collected $558,573 of the $1,210,489 from the reinsured companies. The remaining amount of $651,916 has been appealed by the reinsured companies through the FCIC administrative appeal process.

Question: What reinsured companies were responsible for the excess payments?

Answer: FCIC has issued final determinations to the following reinsured companies and/or managing general agencies:

Old Republic Insurance Companies
Thurston Fire and Casualty Insurance Company
American Agrisurance
Crop Hail Management
Larry Rocker and Associates
Great Northwestern Insurance Company
Omaha All Risk Crop Company
Rain and Hail Insurance Services

Question: What disciplinary actions have been taken against them?

Answer: Four of the reinsured companies are no longer operating under a Standard Reinsurance Agreement with FCIC for the 1989 and succeeding crop years. FCIC has advised those Reinsured Companies remaining in the program of appropriate corrective actions for training of loss adjusters and agents, and of procedural enhancements to tighten identified inconsistencies. FCIC has also issued to those companies remaining in the program, minimum standards for reinsured company quality control programs now required by the Agreement.

FCIC has increased compliance reviews of all companies, particularly loss adjustment activities.

PROGRAM ADMINISTRATIVE COSTS

Question: Mr. Marshall, last year you mentioned that you would be contracting with an accounting and auditing firm to examine the reinsured company and master marketer reimbursement rates. What is the status of this examination?

Answer: At the present time, the contractor has completed twelve of seventeen on-site reviews of both reinsured companies and sales and service contractors.

The reports on the remaining visits have not yet been reviewed by cognizant FCIC staff, and the contractor expects to submit a draft final report in May with issuance of the final report expected in June 1989.

Question: Will you be employing any new reimbursement rate adjustments?

Answer: Since the contractor is still getting detailed information on individual site visits and has not submitted a final report, it is too early to say what adjustments, if any, will be recommended or made to existing reimbursement rates.

Question: What future plans does the Administration have for the delivery system contracts generally?

Answer: Currently, the Corporation is in the process of drafting a three-part sales/service/reinsurance contract package as a pilot comprised of:

a. General Operating Agreement.

b. Reinsurance Addendum to the General Operating Agreement.

c. Limited Federal Sales and Service Contractor Addendum. This is intended to be the present Agency Sales and Service Contract when attached to the General Operating Agreement.

d. Full Service Federal Sales and Service Contractor Addendum. This is intended to contract for service as currently performed by the reinsured companies, i.e., sales, service, training policy issuance, billing collections, the adjustment of claims and processing of loss payments.

Pending review for legal sufficiency and concurrence on administrative implementation, it is the Management's intent to have the pilot contract package available by July 1, 1989, for possible implementation as a Pilot.

DELIVERY SYSTEM PERFORMANCE

Question: The Commission's Interim Report suggest that delivery system performance could be improved if account executives were available to assist in daily program operations. Do you agree with this recommendation?

Answer: The account executive concept was considered and made part of the Corporation's goals during the planning conference.

Question: How many staff would this recommendation entail? In what locations?

Answer: The Assistant Manager for Program Administration has been coordinating the efforts of the Reinsurance Contract Division and the Marketing Contract Division with the Personnel Division to establish Account Executive positions to work with the Reinsured Companies and the Agency Sales and Service Contractors. The number of account executive positions to be established has not yet been determined.

PERFORMANCE STANDARDS

Question: Would it be practical to establish performance standards for reinsured companies and master marketers?

Answer: Yes, it is practical and FCIC is in the process of establishing performance standards with related sanctions for both reinsured companies and agency sales and service contractors (master marketers). FCIC has set a target date of July 1, 1989, for implementing the standards on an "in-house" basis for the 1990 contract/agreement year and then incorporating the standards into the 1991 Contract/Agreement.

Question: How often would these need to be updated?

Answer: The standards would be updated on a yearly contractual or agreement basis as needed. Changes could, and probably will, occur yearly as more data becomes available from compliance reviews and outside audits, and as program changes occur which affect the requirements and responsibility for reinsured company or master marketer performance. Once experience is gained in this area, it is envisioned that changes would occur less frequently.

Question: In your opinion, do you believe periodic performance reports would have a positive impact on participation?

Answer: The FCIC believes that as program improvements occur, an enhanced perception among lenders, producers, marketing personnel, etc. will create an atmosphere of confidence in program stability, integrity and understanding of a self insurance program worthy of participation and financial protection. The periodic reports can become a means for sending a message outlining the improvements and efforts of all crop insurance personnel.

COMPLIANCE ACTIVITIES

Question: How many compliance field offices do you have now, compared to the number existing before your appointment as Manager of FCIC?

Answer: Prior to my appointment as Manager of FCIC in February 1988, there were two compliance field offices, located in Alexandria, Virginia and Kansas City, Missouri. Since that time, the Compliance Division has undergone a reorganization of functions and organizational reporting. For the purposes of providing autonomy, consistency, and uniformity to the review and oversight of all crop insurance loss adjustment and program servicing activities, the Compliance Division was elevated to a second level reporting organization in FCIC's structure as the Assistant Manager for Compliance and is responsible for reporting directly to the Office of the Manager. In early June 1988, FCIC opened two additional compliance field offices, located in Sacramento, California and Dallas, Texas. In late September 1988, the Alexandria Compliance Office was relocated to Raleigh, North Carolina, providing a central location for that office's area of responsibility and improved cost efficiency of the review process. Currently, there are four compliance field offices in operation with a fifth office scheduled to open in early June 1989, in St. Paul, Minnesota, to provide more efficient oversight for the northern plains states.

Question: How many more compliance staff have been hired?

Answer: Prior to February 1988, the compliance staffing level was at 30 permanent full-time employees. The current staff is at 52 permanent full-time employees and one temporary full time employee with 18 vacancies remaining. The vacancies will be filled with the opening of the St. Paul, Minnesota office and with the hiring of personnel to fulfill additional compliance APH review functions. By late summer 1989, a total of 71 positions should be filled.

Question: What progress has been made as a result of your emphasis on compliance?

Answer: Progress made as a result of increased emphasis on compliance has been realized in several different ways, some tangible and some intangible.

1. Changes in the compliance organizational structure has provided a clearer and more unbiased oversight program, which management can utilize in assessing the effectiveness and performance of the two delivery systems.

2. The establishment of additional compliance offices provides a more diversified and strategically located field office structure, allowing for lower travel costs, enhanced recruitment of review personnel, more timely review responses, and closer scrutiny of problems and complaints of program abuse. Oversight functions are more comprehensive and highly visible, which enhances program integrity and improves FCIC's operational oversight of the program.

3. The increased visibility of compliance has resulted in reinsured companies seeking FCIC technical assistance on problem or potentially controversial cases, rather than routinely granting approval in these situations.

4. Results of compliance reviews from year to year, show a continued decline in the error rates identified through the compliance review process of the Companies. This can also be attributed to increased visibility and current oversight initiatives.

5. The number of policy reviews completed have increased from 66 policies reviewed on 1984 crop year business, to 1,796 policies (including 586 APH policy reviews) reviewed for 1987 crop year business.

6. Additional personnel and office locations allow reviews to be based on sampling procedures allowing FCIC to draw sound conclusions of a company's performance, which will provide a basis for taking administrative actions in cases of non-compliance.

7. Through its program oversight, compliance has identified and referred to the Office of Inspector General, over twenty cases which contained findings serious enough to potentially involve criminal actions. In addition to referring cases to OIG, compliance personnel consistently work closely with OIG and GAO in providing crop insurance technical expertise to these agencies audit functions and OIG investigations.

8. Administrative actions initiated as a result of compliance efforts include suspensions and/or debarments of at least 4 agents and/or loss adjusters involved in blatant disregard for approved operating procedures or involvement in various schemes to defraud the government. FCIC has also denied a reinsurance agreement to one company based on non-compliance in its performance under the terms of its previous Standard Reinsurance Agreement.

9. Compliance has developed and implemented an accountability system for identifying, and tracking claim overpayments through FCIC's accounting system to assure that overpayments made by reinsured companies are reimbursed to FCIC.

10. Through various compliance activities, policy and procedural differences between both delivery systems have been identified, resulting in FCIC pursuing a single policy for use by both systems. Compliance findings have resulted in changes to policies and loss adjustment procedures tightening previously inadequate or inconsistent weaknesses. Compliance recommendations for program improvements in the oversight of the Actual Production History producer certification program have been made and implemented.

11. Recommendations have been made and accepted to enhance training and quality control programs performed by companies, agency sales and service contractors and FCIC field service offices.

12. Established a routine review schedule to systematically review reinsured companies, agency sales and service contractors and FCIC field service offices.

DRY BEAN YIELD RECORDS

Question: Mr. Marshall, I am aware that dry bean growers change types frequently, which can present a problem for purposes of FCIC yield records. Why are the dry bean producers of North Dakota and Minnesota required to prove yields by type, but Michigan is not required to do so?

Answer: Procedural requirements for proving yields are the same for all dry bean producers in all states. Michigan, Minnesota, and North Dakota producers are treated equally. A situation does exist whereby previously covered producers may use production records without regard to bean type, since FCIC changed coverages to beans by type for 1989. This procedure is available to all producers, however, not just to those in Michigan.

Question: Why is the 1988 price election on pinto beans only $15.00, while the price on navy beans $24.00? Please take into account in your response that the 13-year and five-year average prices on pinto and navy beans do not support this price.

Answer: We acknowledge that time pressures involved in reviewing the data and putting price elections out for beans by variety have caused some inconsistencies in price relationships. It is perhaps true that the navy bean price should be lower, however pinto bean prices have varied, in recent years, from $3.50 Cwt. to $8.60 Cwt. below navies. The most recent years' pinto prices have been $15.50, $14, and $14 Cwt. respectively, and while we regret the breadth of the difference between these varieties, it is not possible to adjust them at this late date.

Question: How will FCIC assure that in the 1990 crop year there is equity between the price election for dry edible beans in Michigan, North Dakota, Minnesota and other states?

Answer: The FCIC is in the process of reviewing the entire price election and yield structure for dry edible beans in order to provide adjustments for the 1990 crop year. We anticipate that our action will provide for as much equity as is possible between the offers of insurance which are available for all states.

Question: When will more equitable transition yields for dry edible beans be established in Michigan, North Dakota, Minnesota and other states?

Answer: As noted above, we expect that our review will be complete and will be available as insurance offers are made for the 1990 crop year. It is anticipated that the 1990 insurance program, responsive to urgings of the Crop Insurance Commission, will be available shortly after July 1, 1989.

Question: Is the current price election on dry edible beans in Michigan actuarially sound?

Answer: The price elections for beans are the same in Michigan, Minnesota, and North Dakota. The 1989 crop year is the first for which differential price elections have been available for dry edible beans. We will be looking carefully at our experience across the country to determine the appropriateness of our price elections as we develop prices for the 1990 crop.

Question: How soon can we expect the loss ratio in Michigan to be improved?

Answer: We are reviewing the experience in Michigan, as we are reviewing our offers in other states. It is not possible at this time to determine the underlying reason for our adverse experience in Michigan. It may be that a series of adverse experiences early in our program have contributed to our losses; it may also be that we have an unsound offer in place. The reviews mentioned above are expected to address these issues, and we would hope to assure ourselves of insurance offers for 1990 which would be equitable to producers in all states, as well as providing the FCIC with some assurance of actuarial soundness.

DISASTER ASSISTANCE

Question: The 1988 Disaster Assistance Act exempts recipients of federal disaster assistance from mandatory crop insurance based on financial hardship. How is this financial hardship exemption applied?

Answer: According to ASCS procedure in Notice 1-PAD, Amendment 5, dated 11-10-88, under paragraph 43, "Future Multiple Crop Insurance Requirement", in section D., "The producer may request a waiver of the requirement" by the ASCS County Committee.

Question: Is there a separate application process?

Answer: If the producer can establish to the ASCS County Office Committee (COC) that the purchase of crop insurance would impose an undue financial hardship, THEN the COC shall:

1/ Consider all evidence submitted.
2/ Grant the waiver, on a producer basis, for all crops and farms in which the producer has an interest.
3/ Grant the waiver if a waiver of the requirement has been granted by Farmers Home Administration (FmHA). It is the producer's responsibility to provide evidence of FmHA's waiver.
4/ Thoroughly document the decision in COC minutes."

Question: How many farmers have received an exemption?

Answer: On December 28, 1988, FCIC and ASCS finalized an interagency agreement or Memorandum of Understanding (MOU) to address various items in the Disaster Assistance Act of 1988 that would affect FCIC and ASCS operations. Since January, 1989, FCIC and ASCS personnel have been developing a monitoring system that both agencies will have in place, as specified in this MOU, to reduce commissions for Reinsured Companies and Agency Sales and Service Contractors which sold crop insurance policies to producers who were required to purchase crop insurance under the Disaster Assistance Act.

This MOU also specifies that ASCS will "provide FCIC with a file, broken down by waiver type of all producers who were granted a waiver of 1989 crop insurance requirements because of: undue financial hardship, according to standards established by ASCS." FCIC will be able to track how many waivers were granted by ASCS due to financial hardship under this monitoring system.

FCIC will not know the full impact of the number of waivers granted by ASCS to exempt producers from carrying crop insurance in 1989 until after September.

Question: Does this exemption have an adverse impact on FCIC efforts to increase crop insurance protection?

Answer: FCIC is unable to access the impact of ASCS crop insurance producers exemptions until it receives the statistical information from ASCS.

FCIC - GENERAL BUDGET

Question: Mr. Marshall, I understand the Corporation expects significant increases in business for the current crop year. Would you tell us the magnitude of the increases you expect, measured in terms of premium volume, policies, and percent of eligible acres insured?

Answer: The following comparative table illustrates the growth of Federal Crop Insurance:

			Acreage Farmed	
Year	Premium (Millions)	*Number of Contracts	Acres (Millions)	% of Eligible Acres (236 Million)
1980	$158	163,000	27	11 percent
1988	435	450,093	54	23 percent
1989 Budget Est.	527	546,000	71	30 percent
1990 Budget Est.	535	544,000	**66	28 percent
1989-1990 (Forecast)	600-800	621/828,000	80-100	34-42 percent

* Contract is equivalent to a crop policy; therefore, a producer who insured three crops would represent three contracts with FCIC or a reinsured company.

** Acreage decreases are due to the assumption that a portion of the 1989 disaster linkage business will not be retained in 1990.

Question: Is the budget request sufficient to fund these expected increases in participation in terms of both premium subsidy and the administrative expenses involved?

Answer: This is a difficult question to answer at this time because the dollar value of insurance policies written is not known until June or July of each year; estimates made prior to that time are based on preliminary marketing reports. This is the reason for our constant surveillance of policies issued, and program participation data will be closely monitored in Federal Crop Insurance and the Department to assure that program funding will be adequate.

Question: With 85 percent of current business written by reinsured companies, do you believe you are allocating sufficient resources to compliance and oversight?

Answer: FCIC believes it is proceeding in the right direction with a steady shift of resources toward administering the reinsurance program. Although the early 1980's concentrated on program expansion, the late 1980's have brought continued growth in compliance activities and program administration oversight. As compliance experience and oversight continues, assessments of needed resources are a constant on-going process with yearly allocations reflecting those changes. With little precedent in the insurance industry existing for oversight activities similar to those required in the multiple peril program, FCIC has been forced to rely upon its own experience for determining the proper level of resources in oversight and compliance. In each of the last three years, FCIC has moved additional resources into the oversight of the reinsurance program and sees no change in this resource movement.

By June 1989, we will have five Compliance Offices located in Raleigh, North Carolina; Kansas City, Missouri; Sacramento, California; Dallas, Texas; and St. Paul, Minnesota.

QUESTIONS SUBMITTED BY SENATOR HARKIN

Question: I am very concerned about the apparent slow progress being made by the Federal Crop Insurance Program in providing coverage for various crops other than the standard crops in a given state or country.

Just yesterday, some Iowans asked me to check into why they cannot get Federal Crop Insurance on their potato crop in Iowa. I understand that potato crops can be insured in Minnesota, but the farm of these Iowans is 30 miles from the Iowa/Minnesota border so they are ineligible for crop insurance. I also understand that apple crops cannot be insured in the Federal Crop Insurance program in Iowa, but of course they can be insured in other states.

I just cannot see the logic in this. The prevailing wisdom is that farmers should diversify their operations when they can, yet the lack of insurance discourages diversification. Morever, this situation locks farmers out of the Crop Insurance program at a time when we all agree the program needs expanded sales and premium income. Most unfortunate though, the current situation arbitrarily denies coverage to farmers who need insurance and are good enough managers to want to buy it.

Please explain why potatoes and apples, among other crops, cannot be insured in Iowa this year.

Answer: The making of an offer of insurance, any insurance, is dependent on the ability to measure the product insured and the risk of loss. The FCIC has not done the actuarial work necessary to make such offers for apples and potatoes in Iowa for 1989. It is estimated that there are more than 400 crops commercially grown in the United States. Accurately measuring the insurance offer and the risk in all areas for all crops will take some time. In the meantime, the FCIC proceeds on the basis of the degree of interest and available resources. The apple and potato requests from Iowa made in 1984 and 1987 have been previously researched. Please see data below for the state:

	POTATOES			APPLES			
Year	Harv't Acres ----(Thousands)----	Production Cwt.	State Rank	% U.S.	Production Mil. Lbs.	State Rank	% U.S.
1977	2.1	473	32	*	10.7	NA	*
1983	1.6	176	35	*	12.5	32	*
1984	1.4	210	36	*	5.0	34	*
1985	1.6	330	34	*	13.5	30	*
1986	1.7	332	33	*	5.5	32	*
1987**	1.7	315	33	*	8.8	33	*

* Less than 0.5 percent of U.S. production.
** Preliminary.

The FCIC Underwriting Office in St. Paul, Minnesota investigated grower requests in February, 1989. The investigation resulted in a recommendation to request approval of Cerro Gordo, Monona, and Muscatine Counties for potatoes in 1990. No apple counties were recommended.

Question: Please provide a list of the crops that are eligible for Federal Crop Insurance in Iowa for 1989, and specify any Iowa counties in which insurance is not available for any crop.

[The information follows:]

INSURANCE COUNTIES AND CROPS FOR 1989
State, County, and Programs Insured

IOWA 19

001	ADAIR	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
003	ADAMS	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
005	ALLAMAKEE	Bly,Crn,GrS,HCS,Oat,Soy,Wht
007	APPANOOSE	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
009	AUDUBON	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
011	BENTON	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
013	BLACK HAWK	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
015	BOONE	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
017	BREMER	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
019	BUCHANAN	Bly,Crn,GrS,HCS,Oat,Soy,Wht
021	BUENA VISTA	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
023	BUTLER	Bly,Crn,DyB,GrS,HCS,Oat,Soy,SwC,Wht
025	CALHOUN	Bly,Crn,GrS,HCS,Oat,Soy,Wht
027	CARROLL	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
029	CASS	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
031	CEDAR	Bly,Crn,GrS,HCS,Oat,Soy,Wht
033	CERRO GORDO	Bly,Crn,GrS,HCS,Oat,Soy,SwC,Wht
035	CHEROKEE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
037	CHICKASAW	Bly,Crn,GrS,HCS,Oat,Soy,Wht
039	CLARKE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
041	CLAY	Bly,Crn,GrS,HCS,Oat,Soy,Wht
043	CLAYTON	Bly,Crn,GrS,HCS,Oat,Soy,Wht
045	CLINTON	Bly,Crn,GrS,HCS,Oat,Soy,Wht
047	CRAWFORD	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
049	DALLAS	Bly,Crn,GrS,HCS,Oat,Soy,Wht
051	DAVIS	Bly,Crn,GrS,HCS,Oat,Soy,Wht
053	DECATUR	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
055	DELAWARE	Bly,Crn,GrS,HCS,Oat,Soy,Wht
057	DES MOINES	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Tom,Wht
059	DICKINSON	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
061	DUBUQUE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
063	EMMET	Bly,Crn,DyB,GrS,HCS,Oat,Soy,SwC,Wht
065	FAYETTE	Bly,Crn,GrS,HCS,Oat,Soy,Wht
067	FLOYD	Bly,Crn,GrS,HCS,Oat,Soy,Wht
069	FRANKLIN	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,SwC,Wht
071	FREMONT	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
073	GREENE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
075	GRUNDY	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,SwC,Wht
077	GUTHRIE	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
079	HAMILTON	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
081	HANCOCK	Bly,Crn,GrS,HCS,Oat,Soy,Wht
083	HARDIN	Bly,Crn,DyB,GrS,HCS,Oat,Soy,SwC,Wht
085	HARRISON	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
087	HENRY	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
089	HOWARD	Bly,Crn,GrS,HCS,Oat,Soy,Wht
091	HUMBOLDT	Bly,Crn,GrS,HCS,Oat,Soy,Wht
093	IDA	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
095	IOWA	Bly,Crn,GrS,HCS,Oat,Soy,Wht
097	JACKSON	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht

099	JASPER	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
101	JEFFERSON	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
103	JOHNSON	Bly,Crn,GrS,HCS,Oat,Soy,Tom,Wht
105	JONES	Bly,Crn,GrS,HCS,Oat,Soy,Wht
107	KEOKUK	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
109	KOSSUTH	Bly,Crn,DyB,GnP,GrS,HCS,Oat,Pop,Soy,SwC,Wht
111	LEE	Bly,Crn,GrS,HCS,Oat,Soy,Wht
113	LINN	Bly,Crn,GrS,HCS,Oat,Soy,Wht
115	LOUISA	Bly,Crn,GrS,HCS,Oat,Soy,Tom,Wht
117	LUCAS	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
119	LYON	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
121	MADISON	Bly,Crn,GrS,HCS,Oat,Soy,Wht
123	MAHASKA	Bly,Crn,GrS,HCS,Oat,Soy,Wht
125	MARION	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
127	MARSHALL	Bly,Crn,GrS,HCS,Oat,Soy,Wht
129	MILLS	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
131	MITCHELL	Bly,Crn,GnP,GrS,HCS,Oat,Soy,Wht
133	MONONA	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
135	MONROE	Bly,Crn,GrS,HCS,Oat,Soy,Wht
137	MONTGOMERY	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
139	MUSCATINE	Bly,Crn,GrS,HCS,Oat,Soy,Tom,Wht
141	O'BRIEN	Bly,Crn,GrS,HCS,Oat,Soy,Wht
143	OSCEOLA	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
145	PAGE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
147	PALO ALTO	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
149	PLYMOUTH	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
151	POCAHONTAS	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
153	POLK	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
155	EAST POTTAWATTAMIE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
156	WEST POTTAWATTAMIE	Bly,Crn,GrS,HCS,Oat,Soy,Wht
157	POWESHIEK	Bly,Crn,GrS,HCS,Oat,Soy,Wht
159	RINGGOLD	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
161	SAC	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
163	SCOTT	Bly,Crn,GrS,HCS,Oat,Soy,Wht
165	SHELBY	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
167	SIOUX	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
169	STORY	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
171	TAMA	Bly,Crn,GrS,HCS,Oat,Soy,Wht
173	TAYLOR	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
175	UNION	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
177	VAN BUREN	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
179	WAPELLO	Bly,Crn,GrS,HCS,Oat,Soy,Wht
181	WARREN	Bly,Crn,GrS,HCS,Oat,Soy,Wht
183	WASHINGTON	Bly,Crn,GrS,HCS,Oat,Soy,Tom,Wht
185	WAYNE	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
187	WEBSTER	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht
189	WINNEBAGO	Bly,Crn,GnP,GrS,HCS,Oat,Soy,SwC,Wht
191	WINNESHIEK	Bly,Crn,GrS,HCS,Oat,Soy,Wht
193	WOODBURY	Bly,Crn,DyB,GrS,HCS,Oat,Pop,Soy,Wht
195	WORTH	Bly,Crn,DyB,GrS,HCS,Oat,Soy,Wht
197	WRIGHT	Bly,Crn,GrS,HCS,Oat,Pop,Soy,Wht

NUMBER OF INSURANCE COUNTIES 100

Bly	BARLEY	100
Crn	CORN	100
DyB	DRY BEANS	29
GrS	GRAIN SORGHUM	100
GnP	GREEN PEAS	3
HCS	HYBRID CORN SEED	100
Oat	OATS	100
Pop	POPCORN	50
Soy	SOYBEANS	100
SwC	SWEET CORN	8
Tom	TOMATOES	5
Wht	WHEAT	100

TOTAL COUNTY CROP PROGRAMS 795

Question: Please provide a list of all crops currently eligible for the Federal Crop Insurance program in the U.S. and the number of U.S. counties eligible for coverage for each crop.

[The information follows:]

INSURANCE COUNTIES AND CROPS FOR 1989
State, County, and Programs Insured

ALL STATES

NUMBER OF INSURANCE COUNTIES 3022

Alm	ALMONDS	18	Oat	OATS	2531
Apl	APPLES	231	Ons	ONIONS	63
Bly	BARLEY	2620	Pch	PEACHES	166
CnB	CANNING BEANS	164	Pnt	PEANUTS	292
Cit	CITRUS	44	Per	PEARS	22
CTr	CITRUS TREE	3	Pep	PEPPERS	11
Crn	CORN	2850	Pop	POPCORN	279
Ctn	COTTON	691	Pot	POTATOES	305
CLS	COTTON EX LONG STAPLE	12	Prn	PRUNES	13
Crb	CRANBERRIES	32	Rai	RAISINS	7
DyB	DRY BEANS	323	Ric	RICE	165
DyP	DRY PEAS	37	Rye	RYE	54
Fig	FIGS	4	Saf	SAFFLOWER	59
Flx	FLAX	120	Soy	SOYBEANS	1883
FgP	FORAGE PRODUCTION	143	Stf	STONEFRUIT	16
FgS	FORAGE SEEDING	63	SuB	SUGAR BEETS	153
FSw	FRESH SWEET CORN	7	Sgc	SUGARCANE	23
FTo	FRESH TOMATOES	49	Sun	SUNFLOWERS	219
GrS	GRAIN SORGHUM	2468	SwC	SWEET CORN	199
Gra	GRAPES	97	TGr	TABLE GRAPES	13
GnP	GREEN PEAS	138	Tob	TOBACCO	499
HCS	HYBRID CORN SEED	414	Tom	TOMATOES	106
HSS	HYBRID SORGHUM SEED	15	Wal	WALNUTS	29
MTr	MACADAMIA NUTS	4	Wht	WHEAT	2849
MNu	MACADAMIA TREES	4			

Question: When will Iowa farmers be able to purchase Federal Crop Insurance for their apple and potato crops?

Answer: If the FCIC Board of Directors approves the recommended potato counties, growers in those counties should be able to purchase insurance for the 1990 crop year. Apple coverage is not recommended for any county in Iowa for 1990.

Question: When will farmers be able to purchase Federal Crop Insurance for the various other crops that are generally eligible for Federal Crop Insurance, but that are ineligible in Iowa, or parts of Iowa?

Answer: Currently, Iowa farmers can purchase crop insurance in all counties for barley, corn, grain sorghum, oats, soybeans, and wheat. Other crops or counties where insurance is not yet available can be requested and will be investigated. The Crop Insurance Act provides the necessary guidelines for recommendation and approval. It should be recognized, however, that FCIC resources are not unlimited and crop programs require financial soundness. Crop diversification in many circumstances involves experimenting with new farming practices or crops in the local area. It is difficult to develop sound programs for crops where production information in unavailable or severly limited.

Question: What remains to be done before coverage will be provided in Iowa on these other crops?

Answer: A demonstrated need by growers as to the value of the crop produced, the production history, appropriate contents of the crop policy, and crop expansion guidelines provided by the Management and the Board of Directors are some factors evaluated before coverage can be expanded in any state or for any crop. The development of insurance offers is a process, and it can take some time. We are willing to work with any producer groups that seek insurance and encourage them to contact our underwriting office in Topeka, Kansas.

Question: Here are some figures for the Federal Crop Insurance premium per acre for corn in Delaware County, Iowa and for the counties adjoining Delaware County:

Delaware County	$15.39
Dubuque County	$9.56
Buchanan County	$9.33
Linn County	$6.06
Clayton County	$15.39
Jones County	$7.23

So one farmer could pay twice the premium for crop insurance as another farmer simply because their fields are on opposite sides of the county line.

I have been a good supporter of the Federal Crop Insurance program, but this is just the type of problem that drives people away from Federal Crop Insurance. There is no rhyme or reason to this type of discrepancy. What can be the reason for these huge differences in premium costs?

Answer: Rates for crop insurance are set by using observed insurance experience. Traditionally, FCIC has developed rates on the basis of a county. Differences in rates such as demonstrated have existed for years because a county had several large losses while nearby counties did not. FCIC is in the process of identifying larger areas for quoting rates, with rates based on the experience of the larger area. It may be only a matter of chance that one county has a loss while another does not. For these specific counties, losses historically have been somewhat greater in Clayton and Dubuque counties. However, the current lower rates in the other counties may be only the result of fortuitous circumstances.

Question: Is FCIC working to correct this situation?

Answer: As noted above, FCIC is seeking to develop larger rating areas than a county. This work cannot be quickly accomplished because substantial differences in crop growing conditions can occur over very short distances.

Question: Could FCIC extend the deadline for sign-up for Federal Crop Insurance until this premium discrepancy is worked out?

Answer: It would not be possible to extend the sales closing date only in those counties in which premium rates appear to be inconsistent or excessive. A sales extension would be required across the board, with potential for increased adverse selection against the insurance program.

The situation described is not unique to these two counties in Iowa, nor is it unique to corn. Such anomalies are the result of numerous past decisions, losses or lack thereof, and across the board rate adjustments. The rating structure down to the local area must be adjusted to eliminate these difference. This work cannot be accomplished in the short term with presently allocated resources.

Question: Or could FCIC commit to reviewing the situation and reducing the premium for farmers from the high-premium counties after sign-up and after reviewing the premium discrepancy situation for fairness and consistency?

Answer: FCIC has undertaken a major review of its rates and its ratemaking techniques. The results of this review will be worked into rates over the next two to three years.

The question assumes that the error, if there is one, exists in the counties with the higher rate. In fact, the rates in the other counties may be too low.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Question: What are your future plans regarding the delivery system?

Answer: The FCIC intends to continue to provide equality of service and support to all of its delivery partners, both the Master Marketers and the reinsured companies. It is the marketplace which determines the choice of agent and thus the insurance carrier. FCIC has just completed a costly upgrading of its computer capability and redesign of its claims service function to provide significantly improved service to policyholders with FCIC contracts. We intend to continue to assure a "level playing field" and the best possible administrative and management services to our delivery partners.

Question: Is the Corporation planning any changes in the Actual Production History (APH) program?

Answer: No changes are currently planned, but we do have options under review.

Question: Do you have any plans to add blueberries to the list of commodities or crops for Federal crop insurance coverage? If so, when?

Answer: The FCIC has been working with producer groups and with our field underwriting offices to develop information regarding the possibility of establishing an insurance program for blueberries for some time. At this time, the further development of the program is subject to the steps involved in the Crop Program Development Cycle (CPDC) protocol which was recently adopted to provide structure for our expansion efforts. We do not expect to make this program available before the 1991 crop year.

QUESTION SUBMITTED BY SENATOR MCCLURE

Question: Mr. Marshall. I have heard from several farmers recently that before they will sign up for crop insurance they want the coverage increased to cover quality not just quantity losses. This issue was raised recently by a potato grower who had both quantity and quality losses in his Norgold potatoes due to the drought and hot weather. He received drought disaster assistance only for the reduction in yield due to drought not the reduction in quality. Because he received drought disaster assistance, he is required to purchase Federal Crop Insurance. He wants to be covered for both quality and quantity losses on his potatoes. Will this be possible under the program? If not, why not?

Answer: Insurance coverage is available for losses of both production and quality. The Potato Policy provides coverage for losses in the quantity of production. The insured may also purchase quality protection under the Quality Potato Option Amendment. Under the quality option, the insured's actual percentage of harvested potatoes grading U.S. No. 1 or 2 is compared to a historical average percentage of No. 1 or 2 production based on records provided by the insured. If the records are not provided, a standard set by the Corporation is used. If the insured's production grades below the established quality percentage, that loss of quality is reflected in the indemnity.

QUESTIONS SUBMITTED BY SENATOR SPECTER

Question: The Federal Crop Insurance Corporation (FCIC) promotes agriculture stability by offering farmers crop insurance as protection against economic losses due to crop damage and destruction caused by nature. It is considered that the droughts of 1986 and 1988 have forced FCIC to compete with disaster relief legislation, resulting in lower participation rates. It is also felt that drought legislation has created a perception that insurance is unnecessary when the federal government will provide financial assistance when disaster strikes, How do you plan to make federal crop insurance a more useful product as a risk management tool?

Answer: We have initiatives underway to improve service and to expand our marketing efforts. There is no question that Congressional action providing benefits without regard to producer risk management adversely impacts sales and crop insurance marketing efforts. Recent actions and statements by Members of the Congress have contributed to greater awareness of crop insurance and to the possibility that disaster payments are less likely in the future in light of budget constraints. We will continue to work with our sister agencies, especially the Extension Service, to make producers aware of the benefits of risk management and, specifically, of crop insurance.

Question: Of recent concern in the Commonwealth of Pennsylvania is the availability of crop insurance to cover losses related to potential drought conditions. Specifically, many counties in the Commonwealth are not eligible to participate in the

Federal crop insurance program with respect to certain vegetable crops. What criteria does the Federal Crop Insurance Corporation use to determine which counties and which crops may participate in federal crop insurance?

Answer: There are certain basic criteria that are used when considering expansion and establishing priorities:

1) the economic importance of the crop to the area,

2) the number of acres planted, including trends for increased acres,

3) the number of producers, credit agencies and others expressing an interest in an insurance program, and the sales potential,

4) sufficient and reliable actuarial data must be available for the establishment of sound rates and coverages,

5) time required to develop the program,

6) and availability of resources to develop and administer the program.

After the above criteria have been considered, the developmental and implementation process begins. This involves research, regulations, clearances, policies, procedures, printing, distribution, training, etc. We have in the past found ourselves many times, in our wish to be responsive, trying to make changes or quick fixes and not allowing sufficient time to adequately prepare. This caused complex problems and producer dissatisfaction.

We are currently in the final stages of establishing and implementing the crop program development and change cycle (CPDC). This cycle establishes the tasks and times needed to implement a crop program change or develop a new crop program. Changing a crop program requires the completion of more than 64 tasks over a period of 24 months. Developing a new crop program requires more than 72 tasks over 33 months. Once the cycle is established, a tracking system will be developed and used to manage all crop changes. The crop program development cycle and the monitoring system will provide FCIC with the tools and information needed to control and manage changes made within crop programs and to evaluate time frames within the cycle for future improvements.

Question: Do you foresee the Federal Crop Insurance Corporation expanding its coverage into alternative crops and vegetables?

Answer: The FCIC must move slowly in expanding into crops which are viewed as "alternative" crops in growing areas, or into vegetable crops for the fresh or processing markets. Our experience with such efforts has been poor from an actuarial standpoint, and indicates a need for greater attention to actuarial review. We do not plan to expand further at this time.

Question: What resources are needed for the FCIC to expand into these crops?

Answer: It is, unfortunately, not solely a question of resources. The CPDC mentioned above should contribute to more soundness in our expansion efforts, but recognition by interested parties of the difficulty in insuring crops for which inadequate history exists, or which are difficult to measure and have significant quality measurement problems (such as vegetables) is necessary. We will certainly work with producers to assess the possibilities for development, and be as responsive as we can to the interests of the Congress in making crop insurance more widely available. However, we do not envision any major expansion into new crops for the near term.

RURAL ELECTRIFICATION ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

TELEPHONE INDUSTRY

Question: Telecommunications is a newly deregulated industry with many technological changes necessary for rural telephone systems to keep pace with their urban counterparts.

What prospective studies, if any, has REA done on the effects of regulatory actions such as increase in subscriber line charges and regulations movement away from traditional settlements and division of revenues?

Answer: REA monitors the effects of changes in the telephone industry in several ways. We oversee the performance of our borrowers through analysis of the information provided by them in the year-end statistical report. Changes in particular areas can alert us to potential problems requiring further investigation. Our field representatives provide us with on-site monitoring capability.

We also review studies conducted by other organizations. For example, the FCC publishes a semi-annual report on trends in the telephone industry; and the Federal-State Joint Board prepares a quarterly monitoring report on the effects of regulatory changes.

We have been paying close attention to toll settlements for a number of years and have noted a steady increase in our borrowers toll revenues. In the matters of subscriber line charges, we have not found any significant adverse effects to any of our borrowers. Our findings are confirmed by both the FCC and the Joint Board who both report steady increases in the number of households with telephone service since subscriber line charges were introduced.

Additional changes in toll settlements and regulations are anticipated and the agency will continue our monitoring efforts in these areas.

Question: What is the impact of changing technology in telecommunications on the REA program?

Answer: Changing telecommunications technology impacts every aspect of the REA program. It impacts the technical program by changes in system designs, switches, cables, electronics, fiber optics, materials, specifications, and standards to name a few broad categories. Consequently, loan processing often requires modifications to accommodate new technical requirements.

Question: What is REA doing to work with borrowers on this new technology?

Answer: REA's technical staff works with the borrowers, manufacturers, and industry representatives to provide new telecommunications technology information to all REA borrowers.

We continually review and update our "List of Materials." This list contains all the products accepted for use by REA in constructing telecommunications systems. All of these products have been extensively reviewed and most have been subjected to field trials before acceptance by REA.

We periodically present engineering and management seminars to educate and update the borrowers' staffs on technology changes. These seminars are open to anyone including State PSC's and other Federal agencies. REA is presently completing the 1989 seminars.

REA represents the rural industry in the national standards setting processes. It is a voting member of the American National Standards Institute Accredited Telecommunications Committee (T1). Since divestiture, the T1 Committee has become the industry's standards setting body. REA also represents the rural industry on other specialized national standards bodies such as the National Electric Code, the National Electric Safety Code, and the Protection Engineers Group. REA provides position papers on behalf of the rural telecommunications industry to the Federal Communications Commission (FCC) on dockets of interest.

REA's technical staff works on specific projects that will benefit the rural borrowers. For example, the most current is Basic Exchange Telecommunications Radio Service (BETRS). REA worked with the national associations to obtain a frequency allocation for BETRS. BETRS is basically a radio system to provide a local loop instead of by the more conventional copper pair of wires. BETRS will be able to provide service to rural households that previously could not have economically received it. The use of BETRS is a major topic at the 1989 seminars.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

FFB PREPAYMENTS

Question: Why have the proposed regulations by the USDA on the prepayment of FFB debt, without penalty, not been issued? When do you expect them to be issued?

Answer: The regulations to implement the prepayment of FFB debt are currently in the review process. However, because of a disagreement between REA and Treasury, the regulations have been referred to the Office of Legal Counsel, Department of Justice for resolution. We expect the issue to be resolved shortly and the draft regulations to be published in the near future.

Question: For FY 89, will the USDA support legislation allowing the G&Ts with "internally generated" funds to prepay FFB debt without a penalty?

Answer: REA's proposed regulation does allow G&Ts to prepay FFB loans with internally generated funds. In addition, the 1990 budget proposal also allows borrowers to prepay FFB debt with internally generated funds.

Question: Does the USDA have the authority to interpret and prepare rules and regulations for the implementation of its section of the FY 89 Agriculture Appropriations Act? If yes, why hasn't the USDA issued the final 1989 REA regulations rather than seek the approval of Treasury?

Answer: REA, as all other Federal agencies, is required to submit its proposed regulations to the Office of Management and Budget for review in accordance with Executive Order 12291. OMB, during its review process, solicits review and comment of other Federal agencies and Departments.

Question: Up to now the position of Treasury has been that prepayment of the FFB loan must be done solely by using proceeds from the refinancing loan utilizing the existing REA guarantee and feels that "internally generated" funds are ineligible for FFB prepayment. Does the USDA concur with the position of the Treasury? Why?

Answer: No, we do not concur with the Treasury's position.

Question: As you know, a disagreement over this issue exists between USDA and Treasury. Do you see a mutual agreement that can be worked out between the two areas?

Answer: We have mutually agreed to abide by the Office of Legal Counsel's decision.

Question: Mr. Administrator, what is the future of the FFB and the REA guaranteed financing programs for electric coops? Is it realistic to expect REA loan guarantees of 100 percent to continue?

Answer: Our 1990 budget proposal provides for a 90 percent REA loan guarantee for power supply projects and a 70 percent REA loan guarantee for electric distribution and telephone systems. The funds would come from private credit sources rather than the FFB. It is not realistic to expect REA loan guarantees of 100 percent to continue.

Question: Mr. Administrator, do you see the REA continuing to assist in the development of rural America as has been done in the past?

Answer: REA borrowers, the rural electric cooperatives and the rural telephone systems, have played a very important role in the development of rural America in the past. These same borrowers, through their existing infrastructure, have an important role to play in the future since they are at the local level where the decisions must be made as to project selection and implementation. REA's only role is to provide financial assistance through the new grant and zero interest rate loan program.

Question: Do you see that a strong professional REA staff will remain in place to achieve continued viability of the rural electric program?

Answer: We believe that the staff-year employment level that we have requested in our 1990 budget is adequate to administer the REA program.

Question: If AECC were allowed to prepay FFB without a penalty, its members serving the economically distressed agricultural areas of the state would save approximately $2.9 million each. Mr. Administrator, do you not feel that your agency should support such action? Please keep in mind this proposal will have an economic impact on over 300,000 people in the rural areas of the State of Arkansas.

Answer: We believe that the FFB prepayment regulations, as drafted, would provide the opportunity for AECC to participate in the prepayment without penalty program.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

TELEPHONE LOANS

Question: This budget proposed a cap on the amount of insured telephone loans available under the new 70 percent guarantee program. REA will only guarantee up to $100 million in direct loans. In light of the uncertain financial welfare of these systems and the large need and demand for low interest rate loans, how can you justify a $100 million cap?

Answer: The $100 million figure for loan guarantees was based on existing and anticipated loan demand and the need for loan guarantee assistance by REA borrowers.

Telephone loan applications received by REA have been declining steadily since 1980, from $797 million in 1980 to $327 million in 1984, to $187 million in 1988. In FY 1988, REA made a total of $274 million in telephone loans, consisting of approximately $193 million in direct loans and $80 million in Rural Telephone Bank loans. The President's FY 1990 budget includes a total of $225 million of financial support--guarantees and Bank loans--for telephone borrowers, which is 120 percent of the amount of applications received in 1988.

There has been a steady decline in loan applications and the equally steady improvement in margins, retained earnings, and working funds by rural telephone systems. The proposed total assistance of $225 million will meet the needs of all borrowers requiring financial assistance.

Question: Has REA or any other agency conducted research to determine the impact of this proposal on telephone service in rural areas?

Answer: Our review of trends in loan demand and the steady improvement in the financial condition of telephone borrowers indicates that the President's budget proposal will continue to meet the need for credit assistance. While there will be some increase in interest rates, interest expense on long-term debt represents only 10 percent of total operating costs of the average telephone borrower. The really important need of continued access to capital will continue to be met.

QUESTION SUBMITTED BY SENATOR SPECTER

RURAL DEVELOPMENT

Question: Because of geographic separation of rural areas from metropolitan centers, public services are often inadequate and more expensive. The Rural Electrification Administration (REA) is key in providing assistance to rural America for these vital services and for rural development. How is the Rural Electrification Administration planning to assist rural communities and cooperatives in rural development in Fiscal Year 1990?

Answer: The Omnibus Budget Reconciliation Act of 1987 established the Cushion of Credit program which provides zero-interest loans and grants to borrowers for the purpose of promoting rural economic development and job creation projects. As of February 28, 1989, approximately $1.3 million was available, including the $540,000 Congress appropriated for fiscal year 1989. Each fiscal year REA will use all the loan and grant funds available to allow borrowers to participate in rural economic development projects.

REA has strongly encouraged the rural electric and telephone systems to play a major role in improving the economy of rural areas through support of economic development projects. However, rural development must be largely accomplished at the local level.

Rural utility systems are in a unique position of leadership to provide the initiative for rural development projects. They, along with others in the local community, must gather the resources together and do the planning for these projects. Development will occur in direct relationship to the leadership that is supplied at the local level. Local leadership, not the Federal government, is of paramount importance in helping to revive the economy of rural areas.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

REA AUDITS

Question: Does REA presently have any method of auditing the use of its loan funds to determine that these Federal dollars are being properly used by rural electric and telephone borrowers.

Answer: REA currently employs a field staff of 38 accountants specially trained to perform the compliance testing necessary to review the Federal dollars loaned under the REA program. The field accounting staff reviews each REA borrower's accounting records on a two-year cycle to determine whether loan funds have been advanced and expended for construction activities in accordance with the Rural Electrification Act. In 1987 and 1988, improperly disbursed loan funds of $177,360,516 and $15,353,106 were disallowed. These amounts were required to be reimbursed by the borrowers' own general funds. An additional $2,910,745 of advances received in violation of 7 CFR Part 1711, Electric Loans - Advance of Funds, was repaid with interest to the Federal treasury in 1987 and $11,146,894 in 1988.

Question: Is REA satisfied with the professional competence of the REA accounting staff?

Answer: As Administrator, I am very comfortable with the professional competence of the REA accounting staff.

Question: I have recently learned that the Office of Inspector General in the U.S. Department of Agriculture issued, on February 9, a revision of its Regulation 1700-1, "Basic OIG Investigation/Audit Organization and Procedures". Under this new regulation, private CPAs will replace REA field accountants in performing loan fund audits. Can you assure me that by using private CPAs hired by REA borrowers, instead of REA's own field accountants, the Government will be more secure that REA funds are being properly employed?

Answer: Senator, I cannot assure you that Government loan funds will be more secure using CPAs hired by the borrowers instead of REA's own field accountants. In fact, I believe that the current two-tier review program, in which CPAs audit the borrowers' financial statements and REA field accountants conduct loan fund compliance reviews, provides the greatest degree of positive assurance that REA funds are properly accounted for and disbursed.

Question: Do you believe that CPAs hired to do these reviews will have the same level of expertise as the REA accountants?

Answer: The REA field accountant is specifically trained in each facet of REA's operations and the Loan Fund and Accounting Review (LFAR). Each new field accountant is provided an average of six months of individualized field training with a senior field accountant prior to the first review. The field staff currently employed by REA has, on the average, 15.5 years of specialized REA auditing and utility accounting experience and performs approximately 25 reviews each year. In contrast, 68 percent of the CPAs currently employed by REA borrowers audit two or less REA borrowers annually. A total of 84 percent of the CPAs audit five or less REA borrowers. We do not believe that a CPA that devotes only one or two weeks of audit time each year to an industry as specialized as that of the rural electric and telephone utilities can achieve the same level of expertise as the REA field accountant who addresses these issues on a daily basis.

Separate studies conducted by the Office of Inspector General (OIG) and the General Accounting Office (GAO) found that 70 percent of the audit reports filed under the Single Audit Act (which contain compliance testing similar to that required under the LFAR) contained material inadequacies and, of those, 35 percent were rejected as being totally inadequate. Statistics generated by OIG in its own on-site reviews indicated that one of the four

CPA firms randomly selected for review had workpapers that disclosed major deficiencies in the auditing function without having assumed the additional responsibility of compliance testing.

Question: What is the major reason that OIG is proposing this change?

Answer: Senator, I am not certain what the major reason was for OIG revising the Department's regulations in this area. I believe that question would be more properly answered by OIG.

Question: Is this an attempt by OIG to take over an REA function?

Answer: In the audit that OIG recommended REA require the CPA to perform the compliance reviews currently performed by REA field accountants, they suggest that REA "reduce or redirect the duties and functions of affected personnel." The audit goes on to identify potential savings of $1.5 million annually. The only way to achieve a large monetary savings is to eliminate the REA field accounting staff.

Question: Is this a privatization scheme or a money saving proposition for the Government?

Answer: Our intent is to redirect the functions of the REA field accountants and do not see it as a privatization effort. However, we do not believe that the Government will save any money as a result of the OIG audit recommendations. In fact, we are concerned that future identification of funds received in violation of 7 CFR 1711 will diminish. As previously mentioned, during 1987 and 1988, a total of $14,057,639 of advances were repaid to the Treasury with interest as a result of the work of REA field accountants' enforcement of 7 CFR 1711. The normal statistical sampling and materiality tests utilized by CPAs would very likely result in many of these violations going undetected.

Question: How much money do you expect this change would save REA?

Answer: We do not believe this change will result in any savings. We will redirect the work of REA staff into three major areas--training CPAs in the area of utility accounting, conducting additional quality reviews of the CPAs work, and follow-up on CPA recommendations in audits and other related work.

The REA Administrator has the responsibility of a loan portfolio of approximately $40 billion. We must assure that Federal funds loaned under the provisions of the RE Act are properly accounted for and disbursed for authorized loan purposes. We believe the salaries and expenses funds spent on the REA field accounting staff is very cost beneficial to the Government.

Question: Iowa has a large number of very small rural electric and telephone systems--perhaps more small systems than any other State. I am concerned that this new regulation will add to the cost burdens of these small rural electric and telephone systems and reduce the availability of technical accounting assistance to them. How much will this new regulation add to the fees these systems have to pay for accounting services?

Answer: The LFAR performed by the REA field accountant currently averages 62 hours to complete. Therefore, we project the borrowers' costs for the CPA audit report to increase by approximately $6.9 million annually.

Question: Will this new regulation reduce the availability of accounting technical assistance from REA?

Answer: REA's current plan for implementing the OIG recommendation will redirect the work of our field accountants toward quality reviews of REA program audits by CPAs. The REA field staff will be available to provide technical advice and assistance to the borrowers. If OIG recommends additional cutbacks and elimination of the field staff, the borrowers would be required to rely on their CPAs for technical advice and assistance which would incur additional fees for consultation.

SUBCOMMITTEE RECESS

Senator **Burdick**. This concludes today's hearing.

The subcommittee will meet on Thursday, April 13, in room SD-124, at 9:30.

The subcommittee stands in recess.

[Whereupon, at 11:25 a.m., Tuesday, April 11, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, April 13.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, APRIL 18, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD-138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Cochran, Kasten, Grassley, and Fowler.

DEPARTMENT OF AGRICULTURE

STATEMENT OF WILLIAM C. BAILEY, ACTING UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

ACCOMPANIED BY ROBERT E. SHERMAN, DEPUTY BUDGET OFFICER

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

STATEMENT OF VERN NEPPL, ACTING ADMINISTRATOR

FOREIGN AGRICULTURAL SERVICE

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR

OFFICE OF THE GENERAL SALES MANAGER

STATEMENT OF CHRISTOPHER GOLDTHWAIT, ASSISTANT GENERAL SALES MANAGER

SOIL CONSERVATION SERVICE

STATEMENT OF WILSON SCALING, CHIEF

INTRODUCTION OF WITNESSES

Senator BURDICK. Good morning, ladies and gentlemen. This morning we continue our hearings reviewing the 1990 budget for Agriculture, Rural Development, and Related Agencies.

Today we will review the budget for international, commodity, and conservation programs at USDA. With us this morning are: William C. Bailey, Acting Under Secretary for International Affairs and Commodity Programs; Vern Neppl, Acting Administrator, Agricultural Stabilization and Conservation Service; Thomas O.

Kay, Administrator, Foreign Agricultural Service; Christopher Goldthwait, Assistant General Sales Manager; Wilson Scaling, Chief, Soil Conservation Service; and Robert E. Sherman, Budget Officer at USDA.

We have statements from everyone which will be made a part of the record at this time, without objection. Mr. Bailey, I will ask you to make your presentation first, after which we will take questions from the subcommittee. Mr. Bailey.

STATEMENT OF WILLIAM BAILEY

Mr. Bailey. Thank you, Mr. Chairman.

I am pleased to appear before you today and have the opportunity to discuss with you the fiscal year 1990 budget and program proposals for the international affairs, commodity price and income support programs, and the conservation programs of the Department of Agriculture.

You have gone over the list of people who have accompanied me to the table. I ask that they respond directly to any questions which may arise pertaining to their area of responsibility.

And as you have allowed, these Administrators have statements and I ask that they be included in the record.

Senator Burdick. They will be received.

Mr. Bailey. I would like to briefly summarize my statement. In his earlier appearance before this committee, Secretary Yeutter discussed recent improvements in the U.S. agricultural economy. These improvements are reflected in reduced levels of Commodity Credit Corporation spending for farm price and income support programs.

CCC net expenditures for 1988 were $12.5 billion. That is less than one-half of the record 1986 level. A further reduction would have occurred this year had we not been making disaster assistance payments to farmers in response to last summer's drought.

We now estimate that fiscal year 1989 net outlays for the Corporation will increase slightly, to $13.8 billion. Included in this estimate are one-time crop loss payments of $3.6 billion and livestock assistance payments of $900 million resulting from last year's drought.

For fiscal year 1990, CCC net expenditures are forecast at $11.6 billion. While this represents a decrease of $2.2 billion from the fiscal year 1989 estimated level, it is actually an increase when the drought and the livestock assistance payments are excluded.

While these recent reductions in the levels of CCC spending are welcome, the cost of price and income support programs remains high by historical standards. For this reason and the need to reduce the Federal budget, the Federal deficit, to meet Gramm-Rudman-Hollings targets, President Bush's budget calls for additional CCC net outlay savings of $1.9 billion during fiscal year 1990.

About $800 million of this would be achieved through the use of discretionary authority to increase advance deficiency payments in fiscal year 1989. The exact nature of additional changes is expected to be worked out during budget negotiations between the administration and Congress, and Secretary Yeutter has been instructed by the President to work closely with Congress to identify these savings initiatives.

In making changes in these programs, we must ensure that our recent progress in moving to a more market-oriented agriculture is maintained and that changes are consistent with our goal of achieving reform of the world agricultural trading system during the Uruguay Round of multilateral trade negotiations.

As you know, Mr. Chairman, our purpose today is to present the administration's fiscal year 1990 budget and program proposals for certain agencies of the Department. We are of course aware that the administration and Congress have concluded an overall budget agreement for fiscal year 1990, but that many of the specific details for individual programs remain to be worked out.

We are not currently in a position to estimate how the agreement will affect most of our programs and, therefore, we will proceed in our discussion on the basis of the administration's original budget proposals.

The CCC funding situation has greatly improved as a result of the recent increase in CCC borrowing authority and the reduced levels of farm program activity. Our estimate of the funds needed in fiscal year 1990 for the reimbursement of CCC net realized losses is the lowest in many years.

As a last step in our efforts to address the Corporation's funding needs, we are again requesting a current, indefinite appropriation for CCC to enable the Corporation to request funds as needed from the Treasury to restore its realized losses.

This authority, coupled with the recent increase in borrowing authority, would help to ensure that CCC never again would have to suspend payments due to a depletion of available funds and would avoid the hardships to farmers that have resulted from past payment suspensions.

Due to substantially increased workload requirements resulting from the implementation of the drought assistance programs, the administration has submitted supplemental appropriation language for the ASCS to fund the staff-years and administrative costs needed to carry out these programs during fiscal year 1989. We encourage this committee to consider our request favorably.

For fiscal year 1990, we are proposing $632.6 million for ASCS salaries and expenses. This level reflects an anticipated reduction in staff-year requirements from the adjusted fiscal year 1989 level, due in part to the completion of the agency's work implementing the Disaster Assistance Act of 1988.

Turning to conservation programs, our fiscal year 1990 budget provides a total program level of $2 billion for the Conservation Reserve Program. Of this total, $1.2 billion is requested in new appropriations. This program level for fiscal year 1990 is based on plans to reach a 40-million-acre enrollment level in the Conservation Reserve Program. That is the minimum level required by the Food Security Act of 1985.

Through the seventh signup, 28 million acres have been enrolled in the CRP and sufficient funds are available to enroll an additional 8 million acres during the current fiscal year. During the eighth signup held in February, bids were received on about 3.2 million acres.

For the Soil Conservation Service, the fiscal year 1990 budget of $632 million is requested. This request reflects a careful ordering of priorities, providing increases in the program level for technical assistance as well as decreases in SCS water resource programs. The Resource Conservation and Development Program will be maintained and will continue to support the Department's rural development initiatives.

In international programs, we are pleased that export expansion continues to be successful, and it will continue to be the highest priority for the Department of Agriculture. We are pursuing this goal through a wide variety of activities, including export credit and promotion programs, market development activities, and trade policy negotiations. Recent gains in our export performance demonstrate that these efforts are producing results.

Our budget proposals for fiscal year 1990 continue most of the Department's international activities near current levels. With the CCC export credit program, we intend to make available $5 billion of short-term export credit guarantees and $500 million of intermediate term guarantees. These levels are consistent with the provisions of the Food Security Act of 1985.

For Public Law 480 food assistance, we are recommending a program level of nearly $1.5 billion. This is unchanged from this year. However, based on current price projections, Public Law 480 commodity shipments are expected to increase modestly over this year's tonnage level, to 5.8 million metric tons. Actual tonnages shipped, of course, will depend upon commodity prices and shipping costs during fiscal year 1990.

For the Foreign Agricultural Service, an appropriation of $98.6 million is recommended for fiscal year 1990. This represents an increase of $3.2 million above the appropriated level for fiscal year 1989.

This increase reflects a proposal to transfer $3.2 million from the Department of State's budget and would be used to fund administrative support activities provided by State to FAS offices in U.S. embassies and posts overseas. Funding for FAS programs will not increase as a result of this transfer.

The Targeted Export Assistance Program, which provides assistance for U.S. agricultural commodities and products which have been disadvantaged by unfair trade practices, is also expected to operate at this year's level.

Funding of $7.6 million is proposed for the General Sales Manager's Office for fiscal year 1990. This represents a modest increase in funding, which will provide additional staff support for administration of the Department's export programs. The size of these programs has increased substantially since enactment of the Food Security Act of 1985.

For the Office of International Cooperation and Development, a total of $5 million in appropriated funds is recommended. This will provide increased funding for the agency's activities in conjunction with the international food and agricultural organizations, for its agribusiness and private sector relations work, and for needed improvement in its financial management capabilities.

No further funding is requested for two OICD activities for fiscal year 1990, the Foreign Currency Research Program and the Middle Income Country Training Programs.

PREPARED STATEMENTS

This concludes a summary of my statement, Mr. Chairman. We collectively would be pleased to answer whatever questions you or other members of the committee may have. Thank you, sir.

[The statements follow:]

STATEMENT OF WILLIAM C. BAILEY

Mr. Chairman, Members of the Committee, I am pleased to appear before you today and to have the opportunity to discuss with you the fiscal 1990 budget and program proposals for the international affairs, commodity price and income support, and conservation programs of the Department of Agriculture. I am accompanied this morning by Vern Neppl, Acting Administrator of the Agricultural Stabilization and Conservation Service (ASCS); Thomas Kay, Administrator of the Foreign Agricultural Service (FAS); Christopher Goldthwait, Acting General Sales Manager; and Wilson Scaling, Chief of the Soil Conservation Service (SCS).

Statements by each of these Administrators, providing details on their agencies' budget and program proposals for fiscal 1990, have already been submitted to the Committee. My statement will summarize these budget proposals, after which we will be pleased to answer your questions.

FARM PRICE AND INCOME SUPPORT PROGRAMS

In his earlier appearance before this Committee, Secretary Yeutter discussed recent improvements in the U.S. agricultural economy. These improvements are reflected in reduced levels of Commodity Credit Corporation (CCC) spending for the farm price and income support programs.

CCC net expenditures for fiscal 1988 were $12.5 billion, less than one-half the record 1986 level. A further reduction would have occurred this year, had we not been making disaster assistance payments to farmers in response to last summer's drought. We now estimate that fiscal 1989 net outlays for the Corporation will increase slightly to $13.8 billion. Included in this estimate are one-time crop loss payments of $3.6 billion and livestock assistance payments of $0.9 billion resulting from last year's drought.

For fiscal 1990, CCC net expenditures are forecast at $11.6 billion. While this represents a decrease of $2.2 billion from the fiscal 1989 estimated level, it is actually an increase when the drought and livestock assistance payments are excluded.

While these recent reductions in the levels of CCC spending are welcome, the cost of the price and income support programs remains high by historical standards. For this reason and the need to reduce the Federal deficit to meet the Gramm-Rudman-Hollings targets, President Bush's budget calls for additional CCC outlay savings of $1.9 billion during fiscal 1990. About $800 million of this would be achieved through the use of discretionary authority to increase advance deficiency payments in fiscal 1989.

The remaining $1.1 billion would be achieved through legislative changes in the price and farm income support programs. The exact nature of those changes is expected to be worked out during budget negotiations between the Administration and Congress, and Secretary Yeutter has been instructed by the President to work with Congress to identify these savings initiatives. In making changes in these programs, we must ensure that our recent progress in moving to more market-oriented agriculture programs is maintained and that these changes are consistent with our goal of achieving reform of the world agricultural trading system during the Uruguay Round of multilateral trade negotiations.

The CCC funding situation has generally improved as a result of the recent increase in CCC borrowing authority and the reduced levels of farm program activity. Our estimate of the funds needed in fiscal 1990 for the reimbursement of CCC net realized losses is the lowest in many years. As a last step in our efforts to address the Corporation's funding needs, we are again requesting a current, indefinite appropriation for CCC to enable the Corporation to request funds as needed from the Treasury to restore its realized losses. This authority, coupled with the recent increase in borrowing authority, would help to ensure that CCC would never again have to suspend payments due to a depletion of available funds and would avoid the hardships to farmers that have resulted from past payment suspensions.

Due to substantially increased workload requirements, resulting from implementation of the drought assistance programs, the Administration has submitted supplemental appropriation language for the Agricultural Stabilization and Conservation Service to fund the staff-years and administrative costs needed to carry out these programs during fiscal 1989. We encourage this Committee to consider our request favorably.

For fiscal 1990, we are proposing $632.6 million for ASCS salaries and expenses. This level reflects some anticipated reductions in staff-year requirements from the adjusted fiscal 1989 level, resulting in part from completion of the agency's work implementing the Disaster Assistance Act of 1988 and from proposed reductions in the traditional conservation programs.

CONSERVATION PROGRAMS

Turning now to the conservation programs, our fiscal 1990 budget provides a total program level of $2.0 billion for the Conservation Reserve Program (CRP). Of this, $1.2 billion is requested in new appropriations. This program level for fiscal 1990 is based on plans to reach a 40-million acre enrollment level in the CRP, the minimum level required by the Food Security Act of 1985. Through the seventh signup, 28 million acres have been enrolled in the CRP, and sufficient funds are available to enroll an additional 8 million acres during the current fiscal year. During the eighth signup held in February, bids were received on about 3.2 million acres.

President Bush has identified enhanced water quality and environmental protection as key initiatives of his Administration. This will involve a coordinated Federal effort with contributions from many separate agencies and programs. The budget includes proposals for three ASCS-administered conservation programs related to this effort—the Water Bank Program, the Agricultural Conservation Program (ACP), and the Colorado River Basin Salinity Control Program.

Because of budget constraints and the need to reduce the Federal deficit, our fiscal 1990 budget proposals request no funding for cost sharing of traditional conservation practices of the ACP, the Emergency Conservation Program, or the Forestry Incentives Program.

For the Soil Conservation Service, a fiscal 1990 budget of $632 million is requested. This request reflects a careful ordering of priorities, providing increases in the program level for technical assistance as well as decreases in SCS water resource programs. The Resource Conservation and Development Program will be maintained and will continue to support the Department's rural development objectives.

Emphasis will be placed on providing sufficient technical assistance to continue implementation of the conservation compliance, sodbuster, and swampbuster provisions of the Food Security Act of 1985. In addition, a total of $26.7 million in SCS technical assistance, an increase of $13 million above the 1989 level, will be directed toward the Department's water quality initiative. This initiative will involve several agencies of the Department, as well as other Federal agencies, working cooperatively in an attempt to address nonpoint source water pollution.

Reductions are again proposed for watershed planning and construction as we continue to seek new ways for making these program more efficient and equitable. The Department will be submitting proposed legislation to require non-Federal cost-sharing of flood protection projects, as currently done by the Army Corps of Engineers, and to ensure that all watershed projects have benefits that are directed to agriculture and rural communities.

INTERNATIONAL PROGRAMS

Export expansion continues to be of the highest priority for the Department of Agriculture, and we are pursuing this goal through a wide variety of activities—including export credit and promotion programs, market development activities, and trade policy negotiations. Recent gains in our export performance demonstrate that these efforts are producing results.

The value of U.S. agricultural exports is forecast to increase this year for the third straight year. The foundation for this gain was established in provisions of the Food Security Act of 1985, which improved our ability to compete in the international marketplace; and our export promotion activities build from that base.

Our budget proposals for fiscal 1990 continue most of the Department's international activities near current levels. For the CCC export credit programs, we intend to make available $5.0 billion of short-term export credit guarantees and $500 million of intermediate-term guarantees. These levels are consistent with provisions of the Food Security Act of 1985.

The Export Enhancement Program (EEP) plays a crucial role in our ability to meet subsidized export competition and is essential for our strategy for achieving reform of the world agricultural trading system during the current round of multilateral trade negotiations. We believe the EEP is most effective when the annual level of program activity can be adjusted in response to changing market conditions and the subsidizing practices of our export competitors. The recent mid-term agreement on agriculture in the Uruguay Round of multilateral trade negotiations does not limit our ability to counter unfair trade practices with the EEP.

For Public Law 480 food assistance, we are recommending a program level of nearly $1.5 billion, unchanged from this year. However, based on current price projections, Public Law 480 commodity shipments are expected to increase modestly over this year's tonnage level to 5.8 million metric tons. Actual tonnages shipped will, of course, depend upon commodity prices and shipping costs during fiscal 1990.

For the Foreign Agricultural Service, an appropriation of $98.6 million is recommended for fiscal 1990. This amount represents an increase of $3.2 million above the level appropriated in fiscal 1989. The increase reflects a proposal to transfer $3.2 million from the Department of State's budget and would be used to fund administrative support activities provided by State to FAS offices in U.S. embassies and other posts overseas; funding for FAS programs will not increase as a result of this transfer.

The Targeted Export Assistance (TEA) Program, which provides assistance for U.S. agricultural commodities and products which have been disadvantaged by unfair foreign trade practices, is also expected to operate at this year's level.

Funding of $7.6 million is proposed for the General Sales Manager's Office for fiscal 1990. This represents a modest increase in funding which will provide additional staff support for administration of the Department's export programs. The size of these programs has increased substantially since enactment of the Food Security Act of 1985.

For the Office of International Cooperation and Development, a total of $5.0 million in appropriated funds is recommended. This will provide increased funding for the agency's activities in conjunction with the international food and agricultural organizations, for its agribusiness and private sector relations work, and for needed improvements in its financial management capabilities.

No further funding is requested for two OICD activities in fiscal 1990—the Foreign Currency Research Program and the Middle-Income Country Training Program. The agency's technical assistance and training activities which are funded by other organizations, primarily the Agency for International Development, are expected to continue near current levels during fiscal 1990.

This concludes my statement, Mr. Chairman. We would be pleased to answer whatever questions you may have.

BIOGRAPHICAL SKETCH

WILLIAM C. BAILEY

As Deputy Under Secretary, William C. Bailey has resonsibility for USDA's Agricultural Stabilization and Conservation Service with its operations in 2,800 U.S. counties; the worldwide export market development and trade policy programs of the Foreign Agricultural Service; and the Office of International Cooperation and Development, which provides technical assistance programs to less developed countries.

Prior to being named to this program, Mr. Bailey served as Deputy Administrator for Program Planning and Development (DAPPD), under the Agricultural Stabilization and Conservation Service. In addition, Mr. Bailey was Chief Economist, U.S. Senate, Agriculture, Nutrition and Forestry Committee, from 1979 to 1982 then later served as Manager, Commodity Analysis, General Mills, from 1982 to 1985.

Mr. Bailey was born in Jacksonville, Illinois. He is a graduate of Moscow High School, Moscow, Idaho. He received a Bachelor's degree in economics from the University of Idaho in 1969 and a Master's degree in 1975. In 1978 he graduated with a Ph.D. degree in ag economics from the University of Missouri.

Mr. Bailey served as a Captain in the U.S. Marine Corps from 1969 to 1974.

He and his wife, the former Carolyn Strobel, have four children.

STATEMENT OF VERN NEPPL

Mr. Chairman and Members of the Subcommittee, I thank you for this opportunity to present the fiscal year 1990 budget request for the Agricultural Stabilization and Conservation Service. Except for our wetlands preservation program, the estimates for ASCS and CCC are largely unchanged from the January 9 Budget submission. I would like to present our proposals for the CCC first, then proceed to the Salaries and Expenses request and conclude with the conservation programs.

COMMODITY CREDIT CORPORATION—COMMODITY PROGRAM OUTLAYS

Fiscal year 1988 CCC net outlays, which were mostly for the 1987 crops, were $12.5 billion, a decrease of $9.9 billion from fiscal year 1987 outlays of $22.4 billion, and less than one-half of record high fiscal year 1986 outlays of $25.8 billion. This reduction in 1988 outlays mostly reflects the provisions of the 1985 Food Security Act, which has helped to establish a more market-oriented agricultural environment. The 1988 drought also contributed somewhat to the reduction in 1988 outlays as prices rose in the latter part of the 1987 crop year. Marketing and production decisions are reflecting the market orientation of the 1985 Act and are helping to lower CCC net expenditures. However, due in part to the aggressive application of such export initiatives as the Targeted Export Assistance and Export Enhancement Programs, exports have increased. Corn exports rose by 14 percent and wheat exports rose by 59 percent during the 1987 marketing year. This increase in exports was an important factor in reducing CCC stocks and net outlays during 1988.

For fiscal year 1989, total CCC net outlays are projected to increase by $1.3 billion, to a total of $13.8 billion. Fiscal year 1989 outlays are being significantly influenced by the 1988 drought, particularly with regard to the 1988 crops of wheat and feed grains. Estimates of loan making for wheat and corn are currently one-fifth of pre-drought estimates, for example. However, total net expenditures for rice and upland cotton, two commodities which were not materially affected by the drought, are expected to rise from fiscal year 1988 levels. CCC fiscal year 1989 net outlays are further estimated to increase due to one-time crop loss payments of $3.6 billion, as authorized by the Disaster Assistance Act of 1988, and livestock assistance payments of $.9 billion.

In fiscal year 1990, CCC net outlays are expected to decline by $2.2 billion, to a total of $11.6 billion; however, the 1990 level is higher than 1989 outlays would have been without the one-time drought and livestock assistance payments of $4.5 billion. Completion of the disaster assistance payments accounts for most of the projected decline in fiscal year 1990 net outlays since almost all of these payments will be made in fiscal year 1989.

I should also note, Mr. Chairman, the decrease in CCC commodity certificate issuances shown in this Budget from the levels of previous years. Certificates valued at $2.8 billion are estimated to be issued in fiscal year 1989, declining to $1.2 billion in fiscal year 1990. This compares to fiscal year 1988 issuances of $10.6 billion and fiscal year 1987 issuances of $7.9 billion. The 1989 and 1990 decreases are attributable to diminished CCC inventory stocks available to satisfy certificate redemptions. Consequently, the Budget reflects a much larger proportion of direct producer payments made in cash than has been the case in recent years.

Despite the downward trend in CCC net outlays, further outlay reductions are likely to be needed in order to help reduce the Federal deficit. As Secretary Yeutter has indicated, in trying to reduce outlays we need to consider options that are fair to our agricultural producers and sensible in terms of our budget constraints.

CCC FINANCING

Mr. Chairman, we appreciate the efforts of this Committee in the past to address the Corporation's funding needs. The borrowing authority increase of $5 billion enacted in fiscal year 1988, together with declining outlay levels and sharply lower investments in loans and inventory have all acted to stabilize the Corporation's financial requirements, in contrast to earlier years. Although we do not foresee any funding crises occurring in fiscal years 1989 or 1990, we believe that current, indefinite appropriation authority, which was authorized in both the 1987 Budget Reconciliation Act and the fiscal year 1989 Appropriations Act, is the last step in addressing the longer term financing requirements of farm price support legislation. This appropriation method would avoid any future CCC shutdowns due to a lack of sufficient funds. For fiscal year 1990, the President's Budget proposes a current, indefinite appropriation for reimbursement of realized losses, with no cap, to ensure maximum flexibility for CCC to request funds as needed from the Treasury. Our estimate of the funds that would be drawn to restore CCC realized losses under such authority in fiscal year 1990 is $4.8 billion, which is the smallest appropriation amount for CCC in 9 years.

ASCS FARM PROGRAM ADMINISTRATION

Mr. Chairman, the continued heavy workload associated with implementing various provisions of the 1985 Food Security Act, the payment limitation provisions of other recent legislation, and the Disaster Assistance Act of 1988 continues to exert pressures on our county office administrative operations. Our fiscal year 1989 administrative funding is particularly constrained since funds authorized for the ASCS Salaries and Expenses account for 1989 were based on the pre-drought Budget request of February 1988. Since then, the Nation has experienced a drought which was the worst in 52 years. The Congress did provide $45.4 million in fiscal year 1988 for administering the 1988 crop drought-related programs, but it was based on July 1988 preliminary drought estimates.

Later crop damage reports and workload reports from all 2,800 county offices indicate that the 1988 supplemental appropriation will not cover the administrative funding needed for our full two-year workload requirements because of a much higher level of producer participation. As of March 20, 1989, about $3.0 billion in crop loss, livestock feed, and other disaster program payments has been paid. In view of the substantially higher producer participation in disaster assistance programs, we estimate that an additional $40 to $45 million will be required for approximately 2,487 unfunded staff-years for disaster-related workload in fiscal year 1989. The Budget proposes supplemental appropriation language for fiscal year 1989 to cover only the unfunded workload associated with the disaster programs.

For fiscal year 1990, we do anticipate reductions in staff-year requirements from fiscal year 1989 in our request of $632.6 million, assuming favorable consideration of our supplemental request for fiscal year 1989. We anticipate a large decrease in the use of temporary employees due primarily to the completion of Disaster Assistance Act workload; proposed reductions in traditional conservation programs; and lower staffing due to the required absorption of the 1989 pay increase. However, these reductions are partly offset by higher average costs per staff-year because the Agency will have fewer temporary employees. Other necessary increases are for telecommunications expenses associated with agency-wide automation and an adjustment in fiscal year 1990 CCC transfers for the one-time use of the loan service fee account totaling $31,165,000 in fiscal year 1989.

CONSERVATION RESERVE

The eighth signup for the *Conservation Reserve Program* was held February 6 through 24. Preliminary data on the results of the signup will be available late in the spring. However, we have learned that bids were received on 3.2 million acres.

Cumulative enrollment through the seventh signup, held during the summer of 1988, is slightly over 28 million acres. Funds are available to enroll about 8 million acres during fiscal year 1989, for a total of 36 million acres. Funds are requested for fiscal year 1990 to achieve a total enrollment of 40 million acres, in accordance with the minimum requirements of the Food Security Act of 1985.

We have reduced our program goal from the maximum authorized 45 million acres in response to changes in the agricultural outlook. The severe drought of 1988, together with continued adverse conditions in various parts of the country, has reduced the grain harvest and increased pressures to limit the amount of acreage taken out of production. Higher commodity prices make it difficult to attract the additional acreage into the reserve and still comply with the maximum acceptable rental rate provisions of law.

To encourage CRP participation and increase tree planting under the program, the eligibility criteria were expanded for the eighth signup to include some cropped wetlands and cropland subject to scour erosion. Cropped wetlands are eligible if the land has been cropped in any two of the five crop-years from 1981 through 1985. The acreage must be planted to trees unless SCS approves another form of vegetative cover. This program expansion will also help support the President's initiatives in the areas of wetlands preservation and water quality improvement.

Funds available in fiscal year 1989 will provide $547 million to share the cost of establishing vegetative cover—$144 million for 1989-crop acres and $403 million for prior year acres—as well as $21 million for technical assistance. Approximately $1.192 billion was paid after October 1, 1988, for fiscal year 1989 cash rental payments—$83 million for crop-year 1986, $684 million for crop-year 1987, and $424 million for crop-year 1988. Rental payments on crop-year 1989 acres will begin in fiscal year 1990.

For fiscal year 1990, our appropriation request of $1.202 billion, together with an estimated fiscal year 1989 unobligated carryover balance of $836 million, will fund cost-sharing of $363 million, rental payments of $1.672 billion, and technical assistance of $3 million. We do not propose to use CCC commodity certificates for rental payments in fiscal year 1990. Although our appropriation request for 1990 is lower than 1989 because of available carryover funds, fiscal year 1990 outlays will be higher because 1989-crop rental payments will be due for the first time. We hope that as budget negotiations between the Congress and the Administration proceed, consideration will be given to the need to meet the contractual obligations of the Government for the acreage enrolled in the program.

OTHER CONSERVATION PROGRAMS

In view of the continuing, critical need to reduce Federal spending, no funding is proposed in fiscal year 1990 for cost sharing of traditional conservation practices of the Agricultural Conservation Program (ACP), the Emergency Conservation Program, or the Forestry Incentives Program. However, in keeping with the Administration's focus on improving the nation's water quality, we are requesting increased funding for salinity control and modifications to the Water Bank Program as well as limited funding for the ACP to carry out special water quality projects.

For the *Colorado River Basin Salinity Control Program,* $10.4 million is requested in order to accelerate the four ongoing projects in Colorado, Utah, and Wyoming and to continue pre-implementation work and a planning study in other project areas. The requested funding level was closely coordinated with the States involved, since they are required to reimburse the Treasury for 30 percent of ASCS cost-sharing. Included in the appropriation request for 1990 is $6.2 million for ASCS cost-sharing, $3.8 million for SCS technical assistance and planning, and $400 thousand for Extension Service informational activities.

As detailed in the legislative proposal supporting the Budget request, the *Water Bank Program* will address the high priority wetland preservation objectives of the Administration in a manner that will ensure permanent protection and in the long run will be less costly to the Government than the current program. The $12.4 million requested in the amended Budget will be used to purchase perpetual conservation easements on eligible wetlands and adjacent lands. The increased funding level is necessary to maintain wetland acreage during the transition from rental agreements to easements. Although no new 10-year contracts will be signed, existing agreements will be honored.

The $8 million requested for the *Agricultural Conservation Program* is an integral part of the Department's water quality initiative and will support the government-wide effort called for by the President to reduce ground water and surface water contamination. A total of $900 thousand will provide cost-sharing in eight USDA water quality demonstration project areas. The remaining $7.1 million will be available for cost-sharing in hydrologic units to be selected jointly by ASCS, SCS, and related USDA agencies.

No funding is requested for the *Dairy Indemnity Program* since sufficient carryover funds are expected to be available to cover a normal year's claims.

Mr. Chairman, this concludes my prepared remarks. I will be happy to answer any questions you may have.

BIOGRAPHICAL SKETCH

LAVERN (VERN) F. NEPPL

LaVern (Vern) F. Neppl is Associate Administrator of the Agricultural Stabilization and Conservation Service (ASCS) and is currently serving as Acting Administrator. He also serves as a Vice President of the Commodity Credit Corporation. Prior to being named to this position, Mr. Neppl served as Director, Midwest Area, ASCS.

Mr. Neppl operated a livestock and grain farm in Crawford County, Iowa, for 15 years. He served on the staffs of Minnesota Congressmen Archer Nelsen and Tom Hagedorn as director of field offices. He has held many offices in his community, including Chairman of the Board of Education; County Farm Bureau President; and the Board of Iowa Farm Safety Council. A onetime State President of the Iowa Rural Young People, Neppl also served as Vice Chairman of the Young Farmers and Ranchers Committee of the American Farm Bureau. He has actively participated in the local farm cooperative and other civic and church committees, boards, and commissions.

Mr. Neppl maintains membership in or affiliation with a variety of agriculture, professional and business organizations.

Mr. and Mrs. Neppl live in Fairfax, Virginia. They have four children.

STATEMENT OF WILSON SCALING

Mr. Chairman and members of the Committee, it is a privilege to be here today to discuss the fiscal year 1990 budget proposals for the Soil Conservation Service.

FOOD SECURITY ACT PROGRESS

This has been a time of great challenge and steady accomplishment in terms of soil and water resource protection as the conservation provisions of the 1985 Food Security Act (FSA) are put into place. As of the end of December 1988, about 94 percent of the highly erodible land determinations are done and 65 percent of the conservation plans are completed. Plans have already been applied on 18 percent of the estimated 143 million acres of land involved. Work is underway to step up the pace for making wetlands determinations. Inventories are being conducted during fiscal year 1989 in those states and counties where there are large concentrations of wetlands. We would like to have as many of the on-farm wetlands inventoried by December 31, 1991 as possible. We are pleased to note that President Bush has identified wetlands preservation as an Administration priority. He has indicated the Administration will vigorously implement and enforce laws that are on the books including "swampbuster" provisions of the Food Security Act.

We have sought to work with agricultural producers so that significant reductions in erosion rates can be realized in a cost-effective, reasonable, and practical way. Current indications are that the conservation compliance plans now being written will, when implemented, reduce cropland erosion by 70 to 75 percent on the lands covered. As much as a billion tons of soil could be saved annually. The Conservation Reserve Program is reducing erosion by nearly 600 million tons per year on the 28 million acres contracted under the program through the 7th signup last August. This represents a great leap forward for improved protection of our Nation's soil and water resources. We are proud to be a part of this effort, and we appreciate the strong support we have received from this committee.

THE CONSERVATION PARTNERSHIP

These accomplishments would not have been possible without the cooperation and full participation of our conservation partners in soil conservation districts, State and local governments, other Federal agencies, and private individuals. This partnership continues to be a prime example of an effective linkage between the public and private sectors. Conservation district employees are working side-by-side with USDA employees to get the job done. Volunteers on our Earth Team contributed over 250 thousand hours of service in 1988, the equivalent of $3 to $4 million worth of work. Most importantly, the farmers are coming in the door to request our assistance. Our clientele has doubled over that of previous years. As more farmers and ranchers realize that conservation can pay on both a short-term and long-term basis, we broaden our base of conservation-minded producers. This trend will certainly put us in a better position to deal more effectively with such conservation challenges as water quality during these times of constrained Federal resources.

We are continuing to seek creative ways to improve our efficiency so that we can get the job done as we complete the planning and shift our attention to the application phase of the FSA work. There is still a big job left to be done—FSA work will continue to occupy a large percentage of our time through 1995. We are confident, however, that the deadlines in the law can and will be met.

FISCAL YEAR 1990 BUDGET INITIATIVES

The Soil Conservation Service budget request for 1990, as in previous years, reflects a careful ordering of priorities, seeking to balance resource conservation needs and budgetary constraints. At $632 million, our total 1990 request is a reduction of $72.6 million, about 10 percent below the 1989 appropriation level. Sufficient resources are provided to carry out the FSA work, to support the Department's rural development objectives, and to initiate a program to address nonpoint source water pollution in cooperation with several USDA and other Federal agencies.

The budget continues to emphasize the technical assistance mission of the Soil Conservation Service. Total funding for the Conservation Technical Assistance Program is increased by $7.1 million from the 1989 level. Within the total technical assistance request, an estimated $26.7 million, an increase of $13 million over the 1989 level, would be directed specifically towards strengthening our assistance in the area of water quality. As Secretary Yeutter has indicated, this water quality initiative is one of the programs President Bush has identified as an Administration priority. We believe the Department is uniquely qualified to carry out the President's commitment to protecting the Nation's water resources from contamination from fertilizers and pesticides without jeopardizing the economic vitality of U.S. agriculture. While SCS and other USDA agencies have made significant positive contributions to water quality in the course of carrying out soil and water conservation programs for more than 50 years, it is important to recognize the Department's potentially larger role related specifically to water quality that this budget request represents. The proposed program for USDA would emphasize research, data gathering, information and education, and technical assistance, all key components needed to ensure a balanced program approach. We will be working with state water quality agencies and the agricultural sector to identify problem areas, to develop improved farming practices, and to help farmers and ranchers incorporate these practices into their operations.

Of primary concern to the Soil Conservation Service is ensuring that the conservation practices we recommend to farmers are technically and economically sound from the standpoint of surface and ground water quality and quantity. The Environmental Protection Agency has agreed to encourage States to select agricultural management practices for controlling nonpoint source pollution that would be in accordance with the practice standards and specifications in SCS field office technical guides. The budget provides funding to permit us to update our technical guides in accordance with water quality research results and local resource conditions and needs.

We would propose to step up our ongoing technical assistance in several key regional project areas such as the Tennessee Valley, Chesapeake Bay, Great Lakes, Gulf of Mexico, and Puget Sound. Additional assistance would also be made available to selected high-priority areas identified in State management plans being developed under the requirements of the Water Quality Act of 1987. Areas with ground water quality problems attributed to agricultural production will be emphasized. Finally, we would propose to demonstrate, in cooperation with the Extension Service and the Economic Research Service, agricultural production systems that minimize pesticide and nutrient loadings in surface and ground water at selected sites across the country. The objective here will be to develop and demonstrate complete farming systems that state and Federal agencies can recommend to farmers as solutions to identified water quality problems.

We believe that this budget proposal provides a realistic and positive approach, building on existing program efforts, to address growing public concerns with surface and ground water contamination from nonpoint sources. Agriculture can and must be a part of the solution to this very real problem.

The budget also includes funds for two initiatives that are investments in the continued long-term technical excellence of the Service. An increase of $461 thousand is requested to provide national leadership for the digitization of soil survey data. Digitization is the process of putting soil survey data into a computer-readable form for use in automated resource planning and management systems. Soil data that have been digitized can be used more effectively in analyzing natural resource problems, such as surface and ground water quality, and in supporting conservation planning. Because these data are used widely by other Federal, State, and local agencies, the Soil Conservation Service needs to set the technical standards for developing and managing the digitization of this important national data base. This will enable us to maximize opportunities for data sharing and eliminate duplication of effort at all levels of government.

The second initiative would designate $1,841,000 for a 5-year program to renovate facilities and modernize equipment at our Plant Materials Centers. Many of these centers were established in the 1950's and some as far back as the 1930's. We have reached the point where poor operating conditions and inadequate equipment have begun to hamper the accomplishment of program objectives. The work at these centers is a vital part of our conservation program. Plant materials provide long-term conservation at minimal cost and upkeep to solve erosion and other land use problems. Our field staff has relied heavily upon PMC releases for establishing permanent cover on Conservation Reserve Program lands and meeting the other conservation requirements of the FSA. Funds currently available for the Plant Material Centers program are fully committed for the support of ongoing program operations. We could not proceed with the kind of renovation work that is now urgently needed without the additional funds requested.

PROPOSED LEGISLATIVE CHANGES

Once again the budget includes proposed legislation to amend the Watershed Protection and Flood Prevention Act. These amendments would require that at least 20 percent of the total project benefits accrue to agriculture including upstream rural communities. They would also require the sponsors to pay 25 to 50 percent of the cost of flood prevention projects based on the Secretary's determination of a sponsor's ability to pay. Five percent of the total nonfederal share would have to be in cash. This change would make the cost sharing requirements for SCS water projects consistent with those of other Federal agencies and with the Water Resources Development Act of 1986.

OTHER BUDGET PRIORITIES

Because we are still faced with the need to restrain Federal spending, the budget contains proposals to reduce spending in a number of SCS programs including River Basin Surveys, Watershed Planning and Construction, the Great Plains Conservation Program, and the Resource Conservation and Development Program. None of the proposed reductions would result in program terminations. We would, however, reduce the number of new Great Plains contracts we can sign; allocate fewer RC&D dollars for financial assistance; limit the number of new watershed plans we initiate; and delay new watershed project construction starts. These proposals are presented as a starting point for negotiating the appropriate spending levels for programs such as these which fall into the flexible freeze category under President Bush's budget plan. They reflect the urgency assigned to reducing the Federal deficit in order to ensure the long-term health of our Nation's economy. The administration is ready to work with the Congress on these issues.

In summary, we are presenting to you a budget recommendation for the Soil Conservation Service that addresses our highest priority soil and water resource concerns in a fiscally responsible manner. It is consistent with the priorities of the 1988 National Conservation Program update, which will guide our programs through most of the next decade. We ask your support.

I would like to provide tables showing a summary of the Soil Conservation Service budget and of funds appropriated by State and local governments for soil conservation programs for fiscal year 1989 for the record.

This concludes my prepared statement, Mr. Chairman. With the help of my staff, I will be happy to answer your questions.

[The tables follow:]

SOIL CONSERVATION SERVICE
FY 1990 Budget
(In thousands of dollars)

	FY 1988 Actual	FY 1989 Enacted	FY 1990	
			Program Changes	Total Request
CONSERVATION OPERATIONS:				
1. Technical Assistance	$321,199	$325,167	+$68,541	$393,708
Transfer from Conservation Reserve Program.	45,240	61,461	-61,461	- -
Subtotal, Technical Assistance	366,439	386,628	+7,080	393,708
2. Soil Surveys	67,717	68,203	+461	68,664
3. Snow Surveys & Water Forecasting	5,379	5,494	- -	5,494
4. Operation of Plant Materials Centers	4,856	5,043	+1,841	6,884
Total, Conservation Operations	444,391	465,368	+9,382	474,750
RIVER BASIN SURVEYS AND INVESTIGATIONS:				
1. USDA Cooperative Studies	8,436	8,502	-1,729	6,773
2. Flood Plain Management Assistance	2,050	2,060	-419	1,641
3. Interagency Coordination & Program Formul..	1,565	1,489	-303	1,186
Total, River Basin Surveys and Investigations.	12,051	12,051	-2,451	9,600
WATERSHED PLANNING AUTHORIZED BY PL-566	8,651	8,651	-821	7,830
WATERSHED AND FLOOD PREVENTION OPERATIONS:				
1. Watershed Operations Authorized by PL-534:				
a. Technical Assistance	14,875	15,156	-1,637	13,519
b. Financial Assistance for construction...	11,316	11,035	-10,199	836
c. Loan Services	80	80	-80	- -
Subtotal, Flood Prevention	26,271	26,271	-11,916	14,355
2. Emergency Watershed Protection Operations..	13,500	10,000	-2,623	7,377
3. Small Watersheds authorized by PL-566:				
a. Technical Assistance	52,551	52,269	-592	51,677
b. Financial Assistance for construction...	83,376	83,658	-60,967	22,691
c. Loan Services	175	175	-175	- -
Subtotal, Watershed Operations	136,102	136,102	-61,734	74,368
Total, Watershed & Flood Prevention Operations	175,873	172,373	-76,273	96,100
GREAT PLAINS CONSERVATION PROGRAM:				
1. Cost-sharing assistance	11,612	12,229	-1,851	10,378
2. Cost-share program and contract admin	2,772	2,638	- -	2,638
3. Technical Assistance	5,890	5,607	- -	5,607
Total, Great Plains Conservation Program	20,474	20,474	-1,851	18,623
RESOURCE CONSERVATION AND DEVELOPMENT:				
1. Technical Assistance	18,094	18,330	+1,727	20,057
2. Financial Assistance	6,966	6,730	-2,350	4,380
3. Loan Services	60	60	-10	50
Total, Resource Conservation and Development..	25,120	25,120	-633	24,487
Subtotal, SCS Appropriated Funds	686,560	704,037	-72,647	631,390
RURAL ABANDONED MINE PROGRAM	(15,000)	(12,000)	(-12,000)	(- -)
TRUST FUNDS	311	560	- -	560
TOTAL, SOIL CONSERVATION SERVICE	$686,871	$704,597	-$72,647	$631,950
Ceiling Staff Years	13,747	14,177 1/		13,143

1/ Staff year ceiling of 14,177 is mandated in the 1989 Appropriations Act. Available funds will support 13,794.

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS FISCAL YEAR 1989

STATE	STATE GOVERNMENT	LOCAL GOVERNMENT	TOTAL
Alabama	2,288,041	801,558	3,089,599
Alaska	152,000	65,000	217,000
Arizona	1,385,456	906,202	2,291,658
Arkansas	1,166,745	2,353,920	3,520,665
California	2,332,000	1,323,000	3,655,000
Colorado	525,100	404,501	929,601
Connecticut	2,803,700	493,800	3,297,500
Delaware	3,855,600	770,900	4,626,500
Florida	45,653,524	2,516,657	48,170,181
Georgia	2,808,000	3,009,000	5,817,000
Hawaii	6,738,580	251,725	6,990,305
Idaho	2,542,900	129,935	2,672,835
Illinois	10,134,075	6,966,027	17,100,102
Indiana	5,150,880	2,366,813	7,517,693
Iowa	11,287,027	903,676	12,190,703
Kansas	4,925,326	4,419,138	9,344,464
Kentucky	4,454,800	2,750,800	7,205,600
Louisiana	3,209,100	6,000	3,215,100
Maine	379,833	304,464	684,297
Maryland	7,306,927	2,076,418	9,383,345
Massachusette	1,221,780	247,370	1,469,150
Michigan	6,813,200	1,550,700	8,363,900
Minnesota	33,384,758	35,786,076	69,170,834
Mississippi	365,473	2,275,483	2,640,956
Missouri	20,146,337	265,187	20,411,524
Montana	905,076	1,478,513	2,383,589
Nebraska	5,546,164	21,976,292	27,522,456
Nevada	14,011,253	768,959	14,780,212
New Hampshire	30,156	228,150	258,306
New Jersey	1,650,000	3,834,900	5,484,900
New Mexico	250,173	534,550	784,723
New York	18,822,787	4,509,375	23,332,162
North Carolina	8,536,677	5,286,441	13,823,118
North Dakota	458,600	1,288,000	1,746,600
Ohio	6,143,943	3,702,407	9,846,350
Oklahoma	3,495,239	3,986,750	7,481,989
Oregon	1,452,700	1,249,000	2,701,700
Pennsylvania	760,000	122,000	882,000
Puerto Rico	8,637,593	1,084,539	9,722,132
Rhode Island	384,000	15,150	399,150
South Carolina	2,951,450	1,295,200	4,246,650
South Dakota	363,357	925,198	1,288,555
Tennessee	1,169,013	1,598,221	2,767,234
Texas	4,571,282	2,131,848	6,703,130
Utah	7,060,529	345,607	7,406,136
Virginia	9,517,395	2,731,000	12,248,395
Vermont	412,200	38,000	450,200
Washington	2,849,498	2,424,402	5,273,900
Wisconsin	5,513,273	4,963,581	10,476,854
West Virginia	3,355,240	432,520	3,787,760
Wyoming	4,045,000	281,000	4,326,000
Total	293,923,760	140,175,953	434,099,713

Statement of Thomas O. Kay

Mr. Chairman, members of the Subcommittee. I appreciate the opportunity to meet with you to discuss the work of the Foreign Agricultural Service (FAS) and to present our budget request for fiscal year 1990. The General Sales Manager will present the budget request for his office.

The importance of exports to agriculture is evident throughout the economy. In normal crop years, the output from about 30 percent of the U.S. harvested acreage is destined for export markets, generating about one-fifth of farmers' cash receipts.

In 1988, the output of nearly two-fifths of the harvested acreage was exported. This high level was a result of the 1988 drought, which reduced crop production by nearly a third.

Because of the importance of exports to the economy, the work of FAS continues to be vital to U.S. agriculture. Today I would like to highlight the outlook for farm exports and the role of the Foreign Agricultural Service in improving U.S. export opportunities.

OUTLOOK

This is going to be another good year for farm exports. The U.S. agricultural export recovery is headed for its third consecutive year of increased sales in fiscal 1989.

Initial estimates of U.S. agricultural trade place exports at $38.0 billion, up $2.7 billion, or nearly eight percent above 1988 levels. Higher prices for U.S. farm products in the wake of last summer's drought are primarily responsible for this increase.

In contrast, export volume is forecast to shrink around two percent to 145 million tons. Projected declines in the oilseed complex and cotton will more than offset increased export volumes for feed grains and rice.

U.S. agricultural imports are forecast to remain at $21 billion, the same as last year, leaving a farm trade surplus of $17.0 billion, an increase of $2.7 billion over fiscal 1988's level.

TRADE POLICY

In order to discuss the long-term outlook for U.S. agricultural trade, we must take a close look at developments and successes in the trade policy arena—at both multilateral and bilateral levels.

The past year has been one of significant progress in the Uruguay Round of multilateral negotiations on agriculture under the General Agreement on Tariffs and Trade (GATT).

The midterm review of these talks began in Montreal, in December, and will resume in April, in Geneva.

The negotiations gained momentum in Montreal. Agreement was reached in 11 of 15 negotiating groups, but agriculture, not surprisingly, was one of the toughest points in the negotiations, primarily because of differences between the United States and the European Community (EC).

The U.S. position at Montreal was that supply and demand imbalances, which the European Community claims are the root cause of trade problems, are only a symptom and that partial reforms would neither be equitable nor would they solve the problem.

Three issues—production support, market access, and export assistance—must be addressed together as part of a comprehensive, long-term reform package. In addition, health and sanitary regulations should be harmonized to the extent possible and be based on scientifically justified needs to ensure that they are not used as trade barriers.

Although no final agreement has been reached, we hope in April that the differences regarding agriculture will be reconciled within a framework agreement that will lead to fundamental changes to the world farm trading system.

In addition to the GATT multilateral negotiations, we also continue to work with key U.S. trading partners bilaterally to improve U.S. export opportunities.

Certainly one of the highlights of the past year was our success with Canada in implementing the Free Trade Agreement on January 1, 1989. It is one of the most comprehensive agreements on trade ever negotiated between two nations. It will eliminate all tariffs and some nontariff barriers to agricultural trade between the two countries within the next 10 years. It also liberalizes investment practices and covers trade in services.

Neither country will use direct export subsidies for agricultural goods traded between the two countries. The Agreement also prohibits government and public entity sales of agricultural exports to either country at prices below cost. It generally exempts meat products of one country from the other country's meat import quota laws, increases Canadian poultry and egg minimum import quotas, and sets conditions for the removal of Canadian import licensing of wheat, barley, and oats.

The Agreement also establishes a forum for discussing technical regulations on agricultural trade and calls for the liberalization of discriminatory barriers to the sale of U.S.-produced wine and distilled spirits in Canada.

Moreover, the Agreement supports U.S. efforts at trade liberalization in the Uruguay Round of multilateral trade negotiations.

We are also continuing to press Canada to resolve a number of outstanding issues such as its dairy product quotas and plywood standards which hinder U.S. exports.

We have been working with the European Community on important access and subsidy issues. U.S. opposition has so far helped prevent the EC adoption of a new processing subsidy for increased use of grain in compound feeds. This measure, which is still being considered, would favor increased use of EC grains to the detriment of imported compound feed ingredients, including oilseeds and corn gluten feed. The United States exported over $2.5 billion of these products to Europe last year.

Last fall, we successfully convinced the EC Commission to increase Portugal's consumption quota for soybean oil by 20,000 tons. This brought the 1988 quota up to 85,000 tons. We will continue to press for elimination of this quota.

The EC also fulfilled its commitment to import 2.3 million tons of feed grains under the second year of the U.S.-EC Enlargement Agreement.

Concerning the American Soybean Association's Section 301 case against the EC's oilseed regime, the EC has agreed to the formation of a dispute settlement panel under the GATT. We recently agreed with the EC on the selection of panel members but have not yet agreed upon the terms of reference for this panel.

We were able to gain a year's delay in application of the EC hormone directive to third-country meat imports. However, the hormone directive was implemented on January 1, 1989. Faced with elimination of this market because of an unfair trade barrier, the United States retaliated to defend its trading rights. In the interim, the United States and the European Community have established a joint Task Force to explore ways of resolving the dispute. The joint Task Force recently completed its second meeting and a third meeting has been tentatively scheduled.

Bilateral talks with Japan over the past year have resulted in two agreements that will substantially improve access for U.S. agricultural products in the Japanese market. The Beef and Citrus Agreement, which was signed in July of 1988, will eliminate Japanese quotas on beef and oranges over the next three years and eliminate the quota on orange juice concentrate over the next four years. The agreement offers excellent export opportunities for U.S. producers.

When the Japanese market is completely liberalized, U.S. beef exports are expected to double, exceeding $1 billion per year. U.S. orange exports are expected to increase by 50 percent reaching $120 million per year and orange juice exports are expected to expand tenfold, exceeding $25 million per year.

The agreement specified that beef was to be diverted away from Japan's Livestock Industry Promotion Corporation, a state-trading agency, and that newcomers would be permitted access to imported beef during the transition period. The agreement is off to a good start. So far, eight new importers and 103 new buyers have gained access to imported beef.

A GATT agreement with Japan signed in August of 1988 resolves a long-standing dispute on 11 categories of food products. The agreement provides U.S. exporters with greater sales opportunities for an array of items, including selected tomato and dairy products, sugar-based food preparations and non-citrus juices.

The United States and the Soviet Union recently negotiated an extension of the long-term agreement (LTA) on grain purchases. The LTA continues to facilitate our grain trade with the USSR. Sales as of March 31 for this fiscal year already totaled about 15.7 million tons of wheat and corn.

Taiwan authorities agreed on January 6, 1989, to resume the importation of turkey parts and whole duck, and reduce tariffs on processed turkey products.

The United States and Korea reached an agreement which will significantly improve market access for imported wine and wine products over the next five years. Korea also opened its market to French fries and avocados this past year. Korea's restrictions on beef imports are under review by a GATT panel, and we continue to push Korea to reduce other import restrictions and tariffs.

After two years of market restrictions, the United States and Israel signed a Plywood Agreement in November 1988 under the U.S.-Israeli Free Trade Agreement. The Agreement provides for yearly increases in access to the Israeli plywood market, beginning January 1, 1989.

We were also successful in settling a dispute with India on almonds which will substantially increase our market access.

Last year, Congress passed a comprehensive Trade Bill. The bill showed a perception in the Congress that the rights which the GATT assures U.S. trade in foreign markets are being violated. It expressed the determination of the Congress to end such violations.

We share that determination. We have negotiated, and we shall continue to negotiate, in good faith in the Uruguay Round and other multilateral and bilateral contexts. But we expect our trading partners to live up to their commitments, and we shall pursue actions as may be necessary to ensure that they do so.

MARKET DEVELOPMENT

Long-term export market development has been a core activity for the Foreign Agricultural Service since this Agency was created. We have been fortunate to receive strong Congressional support for activities in this area, illustrated by the substantial increase in export programs made available through the Food Security Act of 1985.

The Market Development Cooperator program and Targeted Export Assistance (TEA) program are administered on the principle that the government and the private sector can work effectively together to increase agricultural exports overseas. With its emphasis on assisting exports of products affected by foreign unfair trade practices, TEA has increased both the scope of market development activities, and the number of organizations we can work with.

For fiscal years 1986 through 1980, $530 million in CCC resources will have been made available to private sector organizations. With these new resources, our farm and food industry has been able to penetrate numerous new foreign markets.

The General Sales Manager will go into more detail regarding TEA program accomplishments, but I would like to add that managing an expanded market development program has put a severe strain on our staffs. Consequently, the General Sales Manager's budget request includes a modest increase that is urgently needed to help us give U.S. agriculture's export programs the assistance and guidance which they deserve. Some additional staff will also help us address suggestions which the General Accounting Office and others have made about additional program evaluation and elaboration of the proposal review process.

This year marks the completion of the first decade of operations for the network of Agricultural Trade Offices established under provisions of the Agricultural Trade Act of 1978. Fifteen offices headed by American Agricultural Trade Officers are now in operation, working to expand exports in environments as diverse as Caracas, Bahrain, London and Tokyo. The effectiveness of our support for U.S. exporters, cooperators, trade missions, and trade exhibitions has clearly benefited from the establishment of specialized offices solely devoted to such activities.

Trade shows and programs to encourage foreign food retailing chains to carry U.S. products have been strengthened and expanded in the last year. The number of FAS-sponsored trade shows and exhibitions worldwide has doubled to 44, including 29 oriented to value-added food products, in 1989. U.S. food manufacturers have responded to FAS efforts to improve show quality by signing up in steadily increasing numbers for these shows and exhibitions.

The state departments of agriculture, represented by their four regional organizations, have been working closely with FAS to increase participation of companies in their regions in USDA-sponsored export programs. The regional organizations have managed point of sale promotions for U.S. food products in supermarkets in Japan, Taiwan, Hong Kong, the Netherlands, France and Germany. The regional association which represents the Northeastern United States has recently opened an innovative product display center in Antwerp, Belgium. The center provides a showcase for products from all over the United States for European importers and chain store buyers.

EXPORT MARKET INFORMATION

One of the basic ways in which FAS works to improve the U.S. farm export situation is by providing market information and trade data. We depend on our attache service, and other sources such as remote sensing systems to collect global crop production data and import and export information.

With this information we forecast crop production, assess export marketing opportunities, and track changes in international agriculture which affect U.S. exports.

This information goes to U.S. farmers, exporters, and others to help them evaluate marketing opportunities.

TRADE AND DEVELOPMENT MISSIONS PROGRAM

Over the past two decades, the developing countries have emerged as our largest aggregate agricultural export market. Their share of total U.S. agricultural exports during this period increased from 31 to 42 percent. However, their importance as future markets depends upon their continuing economic growth.

To explore how U.S. trade and development programs could be used most effectively to meet the food and economic needs of developing countries, and to enhance U.S. agricultural trade prospects, Congress authorized the Agricultural Trade and Development Missions Program in December 1987.

The program provides opportunities for formulating more effective country-specific trade and development strategies to expand U.S. exports with limited government outlays. It is managed by FAS under the chairmanship of the Secretary of Agriculture in cooperation with the Department of State and the U.S. Agency for International Development.

So far, missions have gone to Hong Kong, the Philippines, Singapore, Indonesia, Mexico, Tunisia, Algeria, Cote d'Ivoire and Kenya.

These missions were instrumental in generating a close and productive working relationship between the public and private sector, identifying mutually beneficial trade and development projects, improving the effectiveness of U.S. food assistance and export programs, providing the groundwork for improved export market opportunities, and laying the foundation for a long-term coordinated trade and development strategy.

Seven additional developing countries will be visited. As required, reports on each mission have been sent to the Congress and plans have been formulated to facilitate follow-up on the recommendations made.

AGRICULTURAL ATTACHES

In all of the efforts which I've discussed, the support of our overseas agricultural attaches is invaluable.

Our network of agricultural representatives in 75 U.S. embassies and consulates covering some 110 countries around the world has contributed substantially to the success of U.S. export programs. Our counselors and attaches help expand markets for U.S. farm products, provide the Department's foreign supply and demand information, and work on policy and market access issues.

Examples of their important day-to-day work range from the long-term efforts of the FAS Tokyo office in providing analytical support for the successful negotiations with Japan on beef and citrus, to the leading role our Agricultural Trade Office in Singapore played in introducing a new product—catfish—to that market.

Additional resources would strengthen our market promotion efforts in high trade areas such as China, Taiwan, and Japan. Instead, because of rising overseas costs, we may be faced with reductions in our overseas presence.

BUDGET RECOMMENDATIONS

The fiscal year 1990 budget proposes to continue the agency's programs at the fiscal year 1989 level. While the $98.6 million level recommended for fiscal year 1990 represents an increase of $3.2 million above the level appropriated in fiscal year 1989, this increase is directly related to a proposed transfer from the Department of State's budget. This proposed transfer results from a Congressional directive which required the Department of State to modify the formula used to distribute costs among U.S. foreign affairs agencies for administrative support provided by State at U.S. embassies and other posts overseas. Funding for FAS programs will not increase as a result of this transfer.

The budget proposes that increased costs associated with overseas and domestic inflation be absorbed. In doing so, we intend to minimize to the extent possible the impact on program delivery. However, the effect will be the greatest on our overseas offices where inflationary costs have been consistently higher than in the United States. Since fiscal year 1985, the cost of maintaining our overseas offices has increased by $10 million or 57 percent. The increase in fiscal year 1988 alone was 13 percent. These increases are caused not by an increase in our overseas staff, but primarily by the combined effect of foreign inflation and the declining value of the dollar. As a result, we must continue our search for ways to carry out our varied responsibilities within available resources.

This concludes my statement, Mr. Chairman. I will be glad to respond to questions.

STATEMENT OF CHRISTOPHER GOLDTHWAIT

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the programs of the Office of the General Sales Manager and to present our budget request for fiscal year 1990.

This past year has been a positive one in boosting U.S. agricultural exports. In fiscal year 1988, U.S. agricultural exports totaled $35.3 billion, a further turnaround from the steady decline during 1981–86. The programs of the General Sales Manager's Office had a direct impact on more than $8 billion in agricultural exports, or about one-fourth of all U.S. agricultural exports last year. The export outlook for fiscal year 1989 is $38.0 billion, nearly an 8 percent increase above 1988 levels.

The General Sales Manager is a key representative of U.S. farmers in international agricultural markets. Meeting clients face-to-face has been extremely important in achieving sales of U.S. products. Last year nine trips overseas were made, visiting countries in Africa, Asia, Europe, and South America. During these trips, meetings were held with foreign government officials, official buying agencies, private sector importers, and U.S. cooperator representatives. In addition, during this period numerous delegations visited the United States to discuss our programs. In many cases, the visits resulted in purchases of U.S. agricultural commodities.

I will describe briefly how major export promotion programs have helped U.S. agricultural exports during the past year.

CREDIT GUARANTEE PROGRAMS

The GSM–102 Export Credit Guarantee Program helps stimulate U.S. exports by assuring the availability of bank financing to foreign purchasers on credit terms up to 3 years. It provides a U.S. Government guarantee on 98 percent of the private financing made under the program. The program operates where credit is necessary to increase or to maintain U.S. exports to a foreign market and where private financial institutions would be reluctant to provide financing without a guarantee from the Commodity Credit Corporation (CCC).

In fiscal year 1988, $4.8 billion in guarantees were announced for 26 countries, and $4.1 billion in sales were registered, an increase in sales registrations of 58 percent over fiscal year 1987. As of March 31, USDA had announced over $4.9 billion in short-term guarantees for 26 countries and sales registrations are running considerably ahead of last year's pace.

This program has been a key instrument in Algeria's becoming one of the most important growth markets for U.S. agricultural products. USDA increased its GSM–102 program for Algeria from $97 million in fiscal year 1986 to $469 million in 1987. The 1988 program of $696 million exceeded the previous year's level by nearly 50 percent and resulted in registered sales of $617 million, more than two-and-one-half times the 1987 level. Sales of wheat, feed grains and protein meals were especially strong, comprising nearly 80 percent of total sales. In addition, the GSM–102 program greatly facilitated the opening of the Algerian market to U.S. wood products, with the first sale ever made of nearly $30 million in lumber and pulp. The fiscal year 1989 program has been increased to $750 million.

Mexico also continued to make major purchases of U.S. agricultural products under this program in fiscal year 1988. Allocations to Mexico totalled $1.2 billion, half again as much as was allocated in 1987. Ninety-eight percent of this amount had been registered in sales by U.S. exporters by the end of 1988. Also during 1988, the third year in which wood pulp was covered under GSM–102, wood pulp exports increased to $64 million, up from sales of $17 million in 1987. For fiscal year 1989 we have announced over $1 billion in credit guarantees for Mexico.

Iraq—one of the first participants in the credit guarantee program—has become the ninth largest market for U.S. agricultural products and continues to be the largest market for U.S. rice. In 1988, exporters registered sales totaling 99 percent of the just over $1 billion available for credit guarantees in sales to Iraq. The Iraq program includes 27 commodity groups, substantially more than any other country. The fiscal year 1989 program is again established at $1 billion.

In fiscal year 1988, exporters registered sales to Korea totaling $539 million against announced credit guarantees of $560 million covering exports of cotton, feed grains, fur skins, leather, oilseeds, tallow, wheat, and solid wood products. Korea has announced that, as a result of its expanding economy, fiscal year 1989 will be the last year it will use the GSM-102 credit guarantee program. We expect the Korean GSM-102 sales market for 1989 to be near the 1988 level. While phasing out credit guarantees may have a minor adverse impact on purchases, Korea should continue to be a major commercial market during the 1990's. Korea represents a major market which has successfully made the transition from Public Law 480 customer to a GSM credit guarantee customer, and will soon be a fully commercial customer.

The GSM-103 Intermediate Export Credit Guarantee Program provides guarantees on commercial credit with repayment terms of 4 to 10 years. The program is designed to help developing nations make the transition from concessional to cash sales. Fiscal year 1988 was the second full year of program operation, and $500 million of credit guarantees were made available to 17 countries. Sales registrations amounted to approximately $363 million. Based on guarantees approved, wheat and feed grains accounted for the majority of the exports, followed by breeder livestock.

To meet Tunisia's drought-related demand for grains, USDA authorized $12 million in new intermediate credit guarantees for sales of U.S. wheat to Tunisia in 1988. In addition, credit guarantees for sales of U.S. feed grains to Tunisia rose to $58 million, up from $10 million the previous year.

The GSM-103 program was also useful to Bangladesh in its efforts to meet increased import demands. Exporters registered wheat sales to Bangladesh totaling $36 million under the program, up 20 percent in value from the previous year. Sales under this program were helpful in establishing and maintaining a larger commercial market in Bangladesh.

As of March 31, USDA had announced the availability of $405 million in intermediate guarantees to 19 countries, bringing the total for both short- and intermediate-term export credit guarantees to over $5.3 billion.

In fiscal year 1988, USDA's foreign risk analyses were expanded. We evaluated the credit worthiness of more than 41 countries based on current macroeconomic and financial conditions as well as expectations for the next 18 to 24 months. The analyses focused on the potential for debt rescheduling or default that could result in outlays for the CCC. While generally well pleased with the minimal outlay cost of these programs, especially when compared with benefits from them, we continue to improve our credit worthiness assessments.

The expansion of both GSM-102 and GSM-103 raises the likelihood that the level of registrations during fiscal year 1989 will probably reach an all-time high—almost double the 1987 level. While this is an achievement we are proud of, it does raise some management concerns. Given our existing staff resources, the length of time required to process export requests has grown from an average of two weeks in fiscal year 1987 to an average processing time this year of four to five weeks. We do not want this to continue. To assist in reducing processing delays, we are requesting funding for a modest increase in staff-years for fiscal year 1990.

PUBLIC LAW 480—FOOD FOR PEACE PROGRAM

The Public Law 480 Food for Peace program has an excellent record of success in supporting the market development, economic, humanitarian, and foreign policy objectives of the United States. Title I concessional sales have been effective in both economic development and the creation of commercial markets for U.S. farm products

During fiscal year 1988, concessional sales agreements under Titles I and III were signed with 26 countries. These agreements provided for registered sales of about 4 million tons of commodities with an estimated export market value of $716 million. In fiscal year 1989, $805 million is planned to be used.

Pakistan signed a Title I agreement to import approximately 140,000 tons of U.S. vegetable oil in 1988. In addition, the United States sold another 300,000 tons under the GSM-102 program. As a result, the United States became Pakistan's largest vegetable oil supplier, with U.S. soybean oil outpacing Malaysian palm oil. Title I continues to support vegetable oil shipments to Pakistan this year.

A Title I agreement for the export of 32,000 tons of U.S. vegetable oil valued at $16 million was signed with Morocco in 1988. The Title I program has been the only mechanism by which the United States has been able to maintain a market presence in Morocco's vegetable oil market in the face of stiff competition from European Community suppliers. In fiscal year 1989, a $40 million Title I agreement has been signed with Morocco to provide both wheat and vegetable oil.

Tunisia purchased $25 million of U.S. grain and feed in 1988, 15 percent more than was purchased the previous year. The commodities were critical in helping Tunisia meet its food and feed grain shortages caused by an ongoing drought. The program for Tunisia also included $1.4 million in wheat to be sold for local currency to help promote the development of private enterprise. So far this year, a Title I agreement with Tunisia has been signed for $10 million with $1 million supporting private enterprise.

The Local Currency Initiative under Public Law 480 supports economic growth through the private sector in recipient countries. So far in fiscal year 1989, $19 million in local currency agreements (using Title I, Section 108 authority) have been signed with five countries: Costa Rica, Guatemala, Jamaica, Sri Lanka, and Tunisia. Under this authority sales of U.S. farm products are made for local currencies, which then are loaned to private financial intermediaries, which re-lend them to the local private sector.

During fiscal years 1988 and 1989, Title III Food for Development agreements were signed with Bangladesh and Bolivia. Funds generated were used within each country for projects such as food grain storage facilities, research and extension services, or small-farm irrigation systems. The program encouraged countries to undertake major policy adjustments, such as expanding private bank credit in rural areas or phasing out consumer food subsidies.

Under the Title II donations program, during fiscal year 1988 the United States approved the donation of 2.2 million tons of commodities on a grain equivalent basis valued at $715 million (including ocean and internal transportation costs) to malnourished people in 72 countries. Title II donations to the World Food Program contributed to the biennial U.S. pledge of $250 million, as well as to the U.S. contribution to the International Emergency Food Reserve. Planned fiscal year 1989 donations will approximate 2 million metric tons currently valued at $640 million.

Title II donations consist primarily of wheat and feed grains and their products. Other commodities donated include vegetable oil, pulses, processed foods, and soy-fortified products.

During fiscal year 1989, the reduced availability of wheat for Public Law 480 purposes has made it necessary to access the Food Security Wheat Reserve. The President has authorized the release of up to 1.5 million tons from the 4-million-ton reserve for programming through Public Law 480 this fiscal year. This wheat is being used under the provisions of Titles I and II.

The Food for Progress Program was authorized by the Food Security Act of 1985 to provide commodities to needy countries to encourage agricultural policy reform using authorities provided under Section 416(b) of the Agricultural Act of 1949 or Title I of Public Law 480. In fiscal year 1988, under Section 416(b), 27,000 tons of rice were shipped to Guinea, and 60,000 tons of sorghum were shipped to Ecuador.

SECTION 416

Section 416(b) of the Agricultural Act of 1949, as amended by the Food Security Act of 1985, authorizes overseas donations from the CCC's uncommitted stocks of grains, oilseeds, and dairy products.

In fiscal year 1988, nearly 1.8 million tons of commodities were approved for donation. Thus far in fiscal year 1989, 900 thousand tons of CCC sorghum and corn has been made available for use in the Section 416 program. In addition, 4,500 metric tons of butter in frozen form has also been made available.

EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program (EEP) uses Commodity Credit Corporation (CCC) commodities to make U.S. products more competitive in the world marketplace and to offset the adverse effects of unfair trade practices or subsidies. Under the EEP, agricultural commodities owned by the CCC are made available as a bonus to U.S. exporters to expand sales of U.S. agricultural products into targeted markets.

In fiscal year 1988, commodities valued at nearly $3.3 billion were sold abroad under the EEP, and the CCC awarded bonuses amounting to $992 million. Total sales in 1988 included 26.3 million tons of wheat, 1.7 million tons of barley, 442,000 tons of flour, 357,000 tons of vegetable oil, 213,000 tons of sorghum, 120,000 tons of rice, and 129 million table eggs. The largest sales during the year were 8.8 million tons of wheat to the USSR, 7.0 million tons of wheat to China, 2.0 million tons of wheat to Egypt, and 2.0 million tons of wheat to India.

As of March 31, my office had approved 102 export initiatives involving 65 countries and 12 commodities under EEP. Since the program began, more than 82 million tons of commodities have been sold, including 59 million tons of wheat and wheat flour (grain equivalent), 6 million tons of barley, 412,000 tons of vegetable oil, 319,000 tons of sorghum, 214,000 tons of barley malt, 191,000 tons of rice, 189,000 tons of poultry feed, 153,000 tons of frozen poultry, 73,000 tons of semolina, 70,000 head of dairy cattle, and 412 million table eggs.

The cumulative sales value of commodities sold under the EEP since the start of the program in May 1985 is estimated to be $8 billion. The amount of bonuses awarded to date totals $2.5 billion.

The EEP has allowed the United States to regain and maintain export markets in the face of unfair competitor practices.

TARGETED EXPORT ASSISTANCE

The Targeted Export Assistance Program (TEA), also has helped U.S. agriculture in its efforts to compete in world markets. The Office of the General Sales Manager has played an active role together with FAS in implementing the TEA program, and together, our combined efforts are paying off. To cite a few examples:

The Alaska Seafood Marketing Institute introduced Alaskan salmon to more than 180,000 Japanese shoppers through in-store sampling. The effort increased both sales and the number of stores buying Alaskan salmon.

Korea's purchases of a U.S. brand of citrus juice concentrate, promoted through the TEA program, tripled during the last marketing year.

The U.S. Meat Export Federation's TEA program in Japan has contributed to dramatic increases in U.S. exports of meats and meat products to that market. For example, export shipments were up 20 percent in 1987, and they climbed another 40 percent during the first 11 months of 1988.

Regional and state groups registered significant export aehievements though the TEA program as well. Examples include:

—The sale of 2 million cases of a western company's fruit drinks to Japan, a one-year growth in that firm's export sales to Japan from $200,000 to $15 million;

—An initial sale of a 40-foot container of frozen raspberries, blackberries, and boysenberries to Japan. A second purchase of approximately 100 tons is planned;

—Some $2.7 million in sales by a small organic food company and a doubling of another company's canned corn exports; and

—The opening of new markets for Tex-Mex and Cajun Foods, canned vegetables, and pepper sauces in Europe, the Middle East, and Far East.

EXPORT SALES AND RELATED PROGRAMS

CCC Direct Sales Program. The CCC Charter Act and Section 407 of the Agricultural Act of 1949 provide the legal authority for direct sales of CCC-owned commodities for export. Direct sales are negotiated on a case-by-case basis and may be for cash or on a deferred-payment basis. These sales must not disrupt domestic U.S. markets, world prices, or patterns of commercial trade.

The Food Security Act of 1985 directed that not less than 150,000 tons of CCC-owned dairy products be sold for export during each of the three fiscal years 1986–88.

During fiscal year 1988, the CCC sold 93,006 tons of dairy products, including 58,722 tons of nonfat dry milk, 13,180 tons of Cheddar cheese, and 21,104 tons of butteroil (butter equivalent basis). Over the three-year period, the CCC sold 471,909 tons of dairy products for export.

The Hunger Prevention Act of 1988 extended the minimum direct export sales provisions of the Food Security Act of 1985 through the end of fiscal year 1990.

Dairy Export Incentive Program (DEIP). Section 153 of the Food Security Act of 1985 mandated this program to be operated by CCC through September 30, 1989. The Hunger Prevention Act of 1988 extended the authorization through September 30, 1990. Also, the Omnibus Trade and Competitiveness Act of 1988 amended the DEIP to require that, if payments in commodities are authorized, such payments shall be made in the form of generic certificates. Export sales under the program must be additional and not displace commercial export sales.

The DEIP has supported exports of 9,750 tons of dairy products to 15 countries. Approximately 7,500 tons of dairy products received as bonuses under DEIP will also be exported.

Due to reduced availabilities of uncommitted stocks of dairy products, no sales have been made under the DEIP program in fiscal year 1989.

Sunflowerseed Oil Assistance Program (SOAP). Section 637 of the Rural Development, Agriculture and Related Agencies Appropriations Act for 1988 directed the Secretary of Agriculture to purchase $10 million worth of sunflowerseed oil to facilitate additional sales of sunflowerseed oil in world markets at competitive prices during fiscal years 1988 and 1989. USDA developed the SOAP program and announced the targeting of Egypt for sales of 60,000 tons of sunflowerseed oil during 1988. USDA will purchase additional sunflowerseed oil to supply as a bonus to successful exporters of sunflowerseed oil to Egypt.

As of March 31, we have awarded 54,300 tons of sunflowerseed oil under the SOAP program. An additional 5,700 tons are currently available.

Cottonseed Oil Assistance Program. The Agriculture Appropriations Act for fiscal year 1989 provides that an additional $20 million will be available in fiscal years 1989 and 1990 to assist exports of not only sunflowerseed oil under the SOAP program, but also cottonseed oil. We have met with representatives of the cottonseed oil industry and are in the process of developing this program.

BUDGET RECOMMENDATIONS

Our budget recommendations for fiscal year 1990 reflect the continued importance of USDA's export programs as a means of helping U.S. agriculture maintain a competitive position in the international marketplace.

CCC EXPORT CREDIT GUARANTEES

For fiscal year 1990, we are recommending a program level of $5 billion for short-term credit guarantees (GSM-102) and $500 million for intermediate export credit guarantees (GSM-103). This reflects a continuation of the program at the same level as fiscal year 1989.

PUBLIC LAW 480 (FOOD FOR PEACE) PROGRAM

For fiscal year 1990, we are recommending a total program level of just under $1.5 billion for the Public Law 480 program, which will provide 5.8 million tons of agricultural commodity exports. This would be an increase of 200,000 tons above the level presently estimated for fiscal year 1989.

For the Title I/III program, we are recommending a program level of $817 million which will provide long-term concessional financing for 3.9 million tons of agricultural commodities.

For the Title II program, we are recommending $665 million, which will provide for 1.9 million tons of food donations.

THE GENERAL SALES MANAGER'S OFFICE

For fiscal year 1990, we are recommending $7.63 million for the operation of the General Sales Manager's Office. This is an increase of $430,000 over the fiscal year 1989 level and will finance 10 additional staff-years urgently needed to deal with the administration and evaluation of our greatly expanded export program responsibilities.

This concludes my statement, Mr. Chairman. I welcome the opportunity to answer your questions.

BIOGRAPHICAL SKETCH

CHRISTOPHER E. GOLDTHWAIT

Christopher E. Goldthwait assumed the position of Assistant General Sales Manager and Assistant Administrator for Export Credits on September 12, 1988. He is responsible for the development and implementation of the Department of Agriculture's export credit programs, which include Public Law 480 and the credit guarantee programs, and will be involved in the execution of export enhancement and direct sales programs.

He has held a wide variety of positions since he joined the Foreign Agricultural Service in 1973 as a management analyst. In his previous position, he served as the Deputy Assistant Administrator for International Agricultural Statistics. He served as Deputy Director for Analysis in the Grain Division (1986–88), agricultural counselor in Lagos, Nigeria (1982–86), and several positions within the Cotton Division (1976–78).

Chris Goldthwait grew up in Davis, California and Plattsburg, New York. He is a graduate of American University in Washington, D.C. and received his master's degree from Harvard University in Cambridge, Massachusetts.

STATEMENT OF HON. THAD COCHRAN, U.S. SENATOR FROM MISSISSIPPI

Senator **Burdick**. Before we proceed with the questions, I would like to call upon my able colleague, Mr. Cochran.

Senator **Cochran**. Well, Mr. Chairman, you are very kind. Thank you very much.

I just want to join you in welcoming our panel of witnesses this morning. I am delighted to see you all here at our subcommittee to help us review the proposal that is being submitted as a part of the President's budget. We are looking forward to having a discussion with you about some of the particulars.

We thank you for your cooperation and for being with us here today.

ASCS SUPPLEMENTAL REQUEST

Senator **Burdick**. You requested a supplemental this year for ASCS salaries and expenses. You requested "such sums as necessary." How much money do you need?

Mr. **Neppl**. We need an additional $40 million, Mr. Chairman, to administer the drought disaster program which was passed by the Congress last year. The bulk of the activity in connection with that program is being carried out during this fiscal year and, therefore, the $40 million is necessary to cover the additional workload in connection with the drought disaster legislation.

Senator **Burdick**. What will be the result if you do not get the money?

Mr. **Neppl**. We would obviously be required to do a lot of belt tightening, and hopefully avoid any adverse impact upon our ability to provide the kind of service that our farm producers are accustomed to and entitled to.

Senator **Burdick**. Your testimony is that you would give better service for the agricultural industry by having $40 million?

Mr. **Neppl**. Yes, sir.

CONSERVATION COMPLIANCE

Senator **Burdick**. Participants in the farm program have until the end of this year to complete conservation compliance plans for their farms. Do you anticipate any problems with meeting this deadline?

Mr. **Scaling**. No, sir; I fully believe that everyone who wants a compliance plan will have one by the end of this year. We are currently 78 percent complete with compliance plans throughout the Nation.

Senator **Burdick**. The schedule will be maintained?

Mr. **Scaling**. Yes, sir; it will be maintained.

PROGRESS WITH WETLAND DETERMINATIONS

Senator **Burdick**. You note substantial progress on highly erodible land determinations and conservation plan completions. However, you do not have comparable information for wetland determinations.

What percentage of wetland determinations are completed?

Mr. **Scaling**. Less than 5 percent, sir.

Senator **Burdick**. Less than 5 percent?

Mr. **Scaling**. That is nationwide. We have made 496,000 wetland determinations on about 5 million acres across the Nation, sir.

Senator **Burdick**. Do you have that broken down by States? I am just curious. How about North Dakota?

Mr. **Scaling**. Sir, we will submit that for the record.

Senator **Burdick**. Well, you intend to put some more emphasis behind this program, do you not?

Mr. **Scaling**. Yes, sir.

[The information follows:]

WETLAND DETERMINATION BY STATE THROUGH APRIL 1, 1989

	Number of determinations			Acres of wetlands
	Positive	Negative	Total	
Alabama	35	15	50	388
Alaska		41	41	
Arizona	24	845	869	146
Arkansas	831	572	1,403	72,142
California	1,744	154	1,898	100,242
Colorado	1,184	9,110	10,294	45,923
Connecticut	252	422	674	2,360
Delaware	175	792	967	1,036
Florida	2,587	3,453	6,040	191,907
Georgia	4,269	19,601	23,870	84,601
Hawaii		58	58	
Idaho	912	3,638	4,550	69,202
Illinois	4,579		4,579	24,687
Indiana	1,683	779	2,462	13,353
Iowa	3,990	35,212	39,202	23,189
Kansas	1,663	41,858	43,521	57,285
Kentucky	1,017	3,296	4,313	25,830
Louisiana	10,173	29,704	39,877	603,191
Maine	275	19	294	6,822
Maryland	1,334	924	2,258	5,659
Massachusetts	212	2,055	2,267	2,514
Michigan	10,490	8,757	19,247	218,908
Minnesota	33,250	19,052	52,302	385,165
Mississippi	1,092	9,470	10,562	84,094
Missouri	1,585	14,782	16,367	90,308
Montana	4,213	955	5,168	234,974
Nebraska	1,981	68	2,049	14,637
Nevada	118	93	211	45,554
New Hampshire	106	294	400	1,154
New Jersey	280	8	288	1,435
New Mexico	117	5,547	5,664	871
New York	6,631	5,007	11,638	117,879
North Carolina	1,211	309	1,520	60,989
North Dakota	42,010	5,926	47,936	1,480,013
Ohio	626	964	1,590	11,914
Oklahoma	150		150	3,890
Oregon	3,245	211	3,456	60,669
Pennsylvania	1,220	34,231	35,451	13,834
Puerto Rico				
Rhode Island	42	41	83	347
South Carolina	97	80	177	1,478
South Dakota	2,338	215	2,553	25,803
Tennessee	3,247	16,038	19,285	153,908
Texas	4,079	25,340	29,419	106,552
Utah	659	9,444	10,103	31,425
Vermont	507	467	974	14,262
Virginia	638	2,684	3,322	5,891

WETLAND DETERMINATION BY STATE THROUGH APRIL 1, 1989—Continued

	Number of determinations			Acres of wetlands
	Positive	Negative	Total	
Washington	1,068	7,534	8,602	26,412
West Virginia	119	2,582	2,701	690
Wisconsin	5,202	6,091	11,293	120,599
Wyoming	354	3,418	3,772	25,751
Total	163,614	332,156	495,770	4,669,883

STATE DEPARTMENT TRANSFER

Senator BURDICK. Mr. Kay, the 1990 budget included a total of 706 staff-years, 10 less than 1989, with an increase of $3,203,000 in the 1990 appropriation level. I understand the increase is there to cover a transfer of funds to the State Department.

Would you please explain why the Foreign Agricultural Service is absorbing this staff reduction?

Mr. KAY. Senator, the congressional mandate came down from the Foreign Affairs Committee that the State Department should revise their method of prorating administrative costs to all foreign affairs agencies represented in the embassies around the world. It was the wisdom of the State Department that functions provided by the Department of State amounted to at this point in time some $3.2 million.

In order to reduce the State Department's budget appearance, those allocations were made to agencies like FAS. So in actuality, what appears to be an increase for FAS of $3.2 million is nothing but a passthrough transfer, if indeed the State Department's proposed revision is adopted. The budget of the Foreign Agricultural Service is basically straight-lined.

FAS PERSONNEL

We have in the last few years received small increases in personnel. When I first arrived there in 1986, our combined FAS/GSM staff-years were at 790. We have now worked our way up to 832.

But I would point out to you, Mr. Chairman, that in 1979 the staffing at the Foreign Agricultural Service was 900 people. Since 1979, our program responsibilities have tripled and we now administer programs totaling $8 billion with 7 percent less personnel.

In the process, there is no question about the fact that our analytical area has suffered because we have had to redirect our resources to carry out new congressionally mandated programs.

Overnight the character of FAS was changed from an analytical type agency, gathering information from around the world, looking at crop production, supply, demand, and consumption patterns around the world, to a program-implementing agency.

There is no question about the fact that this has caused some problems for us and will continue to do so. My view is that our capacity to analyze crop production, consumption patterns, and trade policies around the world will suffer because we had to redirect those personnel resources to implement new programs.

Senator Burdick. In other words, there was a transfer of funds and you were left short?

Mr. Kay. Yes, sir.

EXPORT SITUATION

Senator Burdick. It is notable that the Foreign Agricultural Service has substantially increased its export portfolio over the past 10 years. Based on your experience, Mr. Kay, would you please explain how you view our current agricultural trade posture in terms of the volume, value, and variety of commodities offered for export?

Mr. Kay. We project that for fiscal year 1989, Mr. Chairman, our exports will be around $38 billion. This is a marked improvement over the low point of $26 billion in 1986.

I am happy to report that February was the 16th consecutive month when agricultural exports showed a positive trade balance of over $1 billion. The first 5 months of this year show the strongest export performance of any year since 1982.

With regard to volume, we anticipate that agricultural exports in fiscal year 1989 will be 145 million metric tons. This is a few million tons less than the previous year because of the drought situation. However, because of higher prices export value is forecast to increase by nearly 8 percent to $38 billion.

We have exported almost all types of agricultural commodities. In bulk commodities, the export value will be around $21.7 billion. In the intermediate type commodities like soybean meal and oil, we will show a slight decrease because of the short supply situation in soybeans, and that value will be around $7.1 billion.

But in the consumer-ready area, the high-value products, our figures would indicate that we would export over $9 billion, which would set a record for their group of commodities.

So we feel that in our export programs, both on a commercial basis and through the programs that we have at the Department of Agriculture, facilitate the export of all types of commodities, bulk, intermediate, and consumer-ready products.

Senator Burdick. That is indeed good news, and of course you make it a point to see that the high-quality wheat from North Dakota gets into this act, too?

Mr. Kay. Indeed, we have been very successful with high-quality wheat from North Dakota. Finland has bought a lot of it.

EXPANDED FAS PROGRAM RESPONSIBILITIES

Senator Burdick. During this period as we have begun to capture a positive agricultural trade balance, have FAS responsibilities increased or decreased? Would you compare the number and size of the export programs FAS manages currently with those of 10 years ago?

You have done that partially. How about a period of 10 years?

Mr. Kay. Our export programs responsibilities, Mr. Chairman, have tripled over the past 10 years. The 1985 farm bill gave us some tools that we had not used before. It gave us the Targeted Export Assistance Program and the Export Enhancement Program.

It created the GSM-103 Program and allowed for an expansion of the GSM-102 Program. So, when you add in Public Law 480, our traditional export mechanism, we are now administering export programs in the amount of some $8 billion.

FACTORS AFFECTING EXPORTS

Senator **Burdick**. Of course, this all did not come free, you know. We had some export assistance during this period, did we not?

Mr. **Kay**. Oh, indeed. The combination of these programs, along with the devaluation of the dollar, the lowering of interest rates, and the improved economies in certain areas of the world, have all improved our ability to export. Additionally, in the last 3 years I believe the U.S. Government has been more aggressive in addressing the problems of market access by tearing down nontariff trade barriers by insisting that tariffs be lowered, and by using the programs, like the Export Enhancement Program, to counter subsidies from other countries around the world.

These factors, together with other market-oriented provisions of the 1985 farm bill, have helped restore our competitiveness and I think the results are seen in the marked increase from $26 billion in our exports in 1986 to the projected $38 billion this year.

My feeling is that as long as we can maintain our strong export posture, as long as we can stay competitive with regard to our loan rates, as long as we continue our efforts in the trade negotiating area, and as long as the value of the dollar stays at a reasonable level, I believe that the outlook for increased agricultural exports is good.

IMPORTANCE OF AGRICULTURAL EXPORTS

It is important, Mr. Chairman, because agriculture is the only segment of our economy that, in fact, shows a positive trade balance. We project that in 1989 we will have a positive trade balance of some $17 billion.

When you look at the fact that the 1989 nonagricultural trade deficit is projected to be $132 billion and subtracting the positive agricultural trade balance of $17 billion, reduces the overall trade deficit to around $115 billion, which is the lowest it has been in 15 years.

So we are proud of the contribution that agriculture makes and I wish that some other agencies in the Federal Government would appreciate the importance of the positive trade balance that agriculture generates and its contribution to bringing down the overall trade deficit of this country.

Senator **Burdick**. You know, it is uncanny, because for some reason I have been saying the same thing to my North Dakota farmers.

Mr. **Kay**. I beg your pardon, sir?

Senator **Burdick**. I have been saying the same thing, that we have done a good job. I usually refer to the figure of $18 billion.

Mr. **Kay**. I hope you are right. I am conservative, Mr. Chairman.

FAS STAFF RESOURCES

Senator **Burdick**. Have FAS resources and staff kept pace with the export program for which it has authority?

Mr. **Kay**. Mr. Chairman, when you look at the budget of the Foreign Agricultural Service and compare it to the budget of the entire Department, FAS accounts for about 1 percent of the total budget.

I must be honest and say that staffing has not kept pace with the responsibilities that have been placed upon us. I was faced with a decision last year. At the end of every fiscal year I have to sign an accountability statement to the Secretary of Agriculture indicating whether or not our resources permit us to say that in administering our programs, there is no danger of waste, fraud, and abuse.

For 3 years, Mr. Chairman, I signed indicating that we had sufficient resources, while feeling that I was dishonest in saying so. But last year I felt that honesty was more important than anything else, and I indicated in our accountability statement to the Secretary of Agriculture that because the demands were so great upon our staff—they have worked weekends, they have worked long hours, they are stressed—and I said to the Secretary of Agriculture, I can no longer sign any statement saying that, with the pressure of our programs and the fact that our personnel has not kept up with our programs, this agency is vulnerable to waste, fraud, and abuse unless we get some help on the personnel side.

Senator **Burdick**. I think I ought to turn you over to the other members for a few minutes.

Mr. Grassley.

FISH AND WILDLIFE SERVICE INVOLVEMENT IN SWAMPBUSTER

Senator **Grassley**. Thank you very much, Mr. Chairman.

Mr. Bailey, I have questions of you, but they may be more appropriate for SCS or ASCS to answer, and I will let you accordingly direct these questions or let them chime in where it is appropriate.

Now, this is an issue I raised with Secretary Yeutter. It concerns the involvement of the Fish and Wildlife Service with the swampbuster rules of the 1985 Food Security Act. Does the ASCS or SCS have any goals for wetland restoration that would include cost-sharing with the Fish and Wildlife Service?

Mr. **Bailey**. Senator Grassley, I will ask ASCS to respond to that. These are not shy individuals, and if issues come up which they are more expert in, I have asked that they jump in.

Vern?

Mr. **Neppl**. Well, Senator Grassley, as far as cost-sharing specifically for restoration of wetlands, we do not have cost-sharing proposals. Our Water Bank Program does preserve wetlands for conservation purposes and in the future provide wildlife habitat, but we are not currently involved in funding projects for wetland restoration.

Senator **Grassley**. Would you consider the Fish and Wildlife Service's role active or passive in the administration of title XII of the Food Security Act?

Mr. **Neppl**. It has been a quite active role in fact, as far as advocating the preservation of wetlands, as well as under the sodbuster provisions of the law. They are a very significant and strong presence throughout the country.

WORK WITH FISH AND WILDLIFE SERVICE

Senator GRASSLEY. I think that the direction that I wanted the question to be perceived, and I am sorry I was not clear on this: From the standpoint of your administration of the act and where it says "in consultation with the Fish and Wildlife Service" for making some determinations and making rules and regulations, do you consider from your standpoint of being the administrator of the soil conservation compliance provisions, the swampbuster, sodbuster provisions—how do you view the Fish and Wildlife's part in that as far as your agency is concerned?

I know they have been very active, and I think we have some problems from that.

Mr. SCALING. Let me answer, Senator.

Senator GRASSLEY. OK.

Mr. SCALING. If you don't mind, Vern.

Senator GRASSLEY. It is OK with me.

Mr. NEPPL. You are welcome to.

Senator GRASSLEY. He says you are welcome to.

Mr. SCALING. OK, thank you.

We have had a very good relationship with the Fish and Wildlife Service, and I have no reason to think anything will change. We have been very complementary to each other as we developed a process for identifying wetlands and in our cooperation in implementing the Swampbuster Act.

Senator GRASSLEY. OK. I think that characterizes it as a fact. I just wondered if you see them—in other words, you say the way you are working with them is very good?

Mr. SCALING. Our relationship, sir, has been very good.

Senator GRASSLEY. And I do not quarrel with that. I only want to find, as a legal definition you feel, then, that your relationship and how this is being carried out is in accordance with the statute?

Mr. SCALING. Yes.

Senator GRASSLEY. OK. Last year the Secretary of the Interior issued a report to Congress entitled "The Impact of Federal Programs on Wetlands." In chapter 5 of this report under the heading of "Determination of Commencement or Conversion," the report states that:

> Under the final rule, ASCS is responsible for making commencement determinations and must consult with the Fish and Wildlife Service on determinations.

So what is the role of the Fish and Wildlife Service in determinations currently being made by the county ASCS committees?

Mr. NEPPL. Senator Grassley, we have met periodically with the Fish and Wildlife Service. At the outset of the implementation of the Food Security Act of 1985, we did have several meetings with Fish and Wildlife Service representatives in trying to find common ground as to the implementation of the swampbuster as well as the sodbuster provisions of the law.

Subsequent to that, we also had meetings out in the Dakotas and Minnesota, the States that are most affected with wetland drainage. The meetings included representatives of all three States and all the agencies involved in wetland determinations, in finding common ground for the interpretation of wetlands and how they would be treated.

In connection with the issue of the commencement determinations, we do have ongoing consultation with Fish and Wildlife, as well as Department of Interior personnel in the field, in attempting to make the determinations which reflect the intent of the law.

In many cases those commencement determinations are subject to controversy. The statute provides that if drainage was not commenced before the adoption of the law, before December 23, 1985, that land then cannot be further drained or converted for cropping purposes. However, for wetland that was previously converted to cropland, producers can continue to crop that land if they do not further enhance the drainage of it.

And there are some questions, I guess, in some people's minds, in some producers' minds, on whether we are being too strict; and on the other hand environmentalists and Fish and Wildlife personnel question whether we are too lenient in permitting producers to farm the land or to fulfill the activities that have been determined as commenced. It is a subject of ongoing discussion in this country.

Senator **Grassley**. Well, I think the important word here in this quote—and I will give you the quote again:

> Under the final rule, ASCS is responsible for making commencement determinations and must consult with the Fish and Wildlife Service on determinations.

Now, if that reaches the point where every time the county ASCS office makes a decision on a commenced practice that you have got to check that out with the Fish and Wildlife Service, as opposed to maybe consulting with them to get some overview just exactly how it is done, then I think you are really turning over to them a veto, too much of a veto, or too much involvement, and going way beyond the intent of us in Congress.

Mr. **Neppl**. Well, again, I do not think that we have yielded our authority or our responsibility for carrying out the provisions of the law.

Senator **Grassley**. But you see, the Secretary of the Interior may be doing this to you—that is the point I would like to make—by saying "must consult."

Mr. **Neppl**. Well, in general terms we do consult with them as far as the overall picture is concerned.

Senator **Grassley**. And that is legitimate, because that is what Congress intended. But it has reached a point now where Fish and Wildlife in the Quad Cities on the Mississippi, and they have evidently jurisdiction over Iowa, are writing to the ASCS counties in Iowa where they have made a determination of allowing farmers to do certain practices and saying: You know, in every one of these individual cases, we want soil maps, aerial photos, and all sort of records that you have, so that we can basically check you out, although that is implicit.

Mr. **Neppl**. Well, I would say that that would be in excess of their authority in the matter.

Senator **Grassley**. I will show you the correspondence then. I will do that privately.

Mr. **Bailey**. I want to assure you, Senator, it is the Department's responsibility to run the program, and we take that very seriously. And it is nobody else's responsibility.

Senator **Grassley**. Let me tell you, I wanted to hear that. I am glad I heard it. But I think it is important for you to say that, because I believe that there are some very good provisions in the 1985 farm bill—swampbusting, sodbusting, soil compliance provisions.

And we are going to get into this a little deeper in the 1990 farm bill. But I do not think that these things would have been passed by the Congress if we were having somebody outside the Agriculture Department making a determination on farming practices.

Now, Mr. Neppl, in regard to the meeting that you were talking about, I think involving North Dakota, Minnesota, and some other States in the Midwest, if one of those meetings that you're referring to was one that took place in Minneapolis, I think around the 20th to the 22d or the 22d to the 24th of February, that meeting was actually called by the Fish and Wildlife Service.

Mr. **Neppl**. That was not a meeting I was referring to, sir.

Senator **Grassley**. OK, OK. Well then, I guess I want you to be aware of a meeting called by the Fish and Wildlife Service, which ASCS, SCS, some State departments of natural resources, and Farmers Home was invited, to discuss this sort of thing.

And the agenda is just full of all sorts of referrals to the restoration of wetlands. Now, the purpose of the 1985 farm bill is to see that we do not subsidize any more the destruction of fragile soil through the farm program of encouraging the plowing of land that should have never been plowed in the first place, with all the ecological and other aspects that are bad.

But on the other hand, when you talk about restoration, other than maybe with the CRP Program, it seems like you are trying to undo economic facts of life out there in the Midwest and you are going beyond what we intended to do in the 1985 farm bill.

We no longer want any fragile land to go into production. But when you are talking about restoration, you know, land that has been drained for decades, we are not going to give somebody in the Fish and Wildlife Service an excuse to put that back under water.

Mr. **Neppl**. That is correct, and we are not cost-sharing on that type of program that you describe, sir.

Senator **Grassley**. OK. Well, I think that our discussion on that point is very satisfactory to me. I guess what I want to do then, maybe on a one-on-one basis, is follow up just to make sure that you are aware of what I am aware of, and maybe then I will become a little more satisfied on the extent to which your daily actions are a fulfillment of what you just said, because if they are then I do not think I am going to have any problems with you.

Mr. Kay, on another issue.

Mr. **Kay**. Yes, sir.

CORN OIL EXPORTS

Senator **Grassley**. I previously contacted you to voice my support for the marketing of corn oil overseas. I understand that the

FAS is considering listing corn oil on the docket for Public Law 480. Could you tell me the status of our efforts to export corn oil?

Mr. KAY. I will turn it over to our General Sales Manager who administers the Public Law 480 program, Senator.

Senator GRASSLEY. OK.

Mr. GOLDTHWAIT. Senator, we have studied that recommendation and are moving forward to include a small quantity of corn oil in the Public Law 480 docket. We are also moving to publish in the Federal Register very, very shortly the regulation for other vegetable oil export programs mandated by the Food Security Act of 1985, the so-called SOAP and SCOAP programs.

So I think we are doing all we can for the vegetable oil sector under our current legislation.

Senator GRASSLEY. I just want to say that I appreciate that, because the export of value-added agricultural products is very much key to enhancing, not just the maintenance but the enhancing, of our agricultural economy in States like Iowa.

And so I hope that you will do all you can to expedite this whole process.

HAYING AND GRAZING OF ACR LAND

Mr. Neppl, back to you. On another aspect of set-aside acres, it seems to be as perennial as the alfalfa we grow there, whether or not we are going to be able to do anything with those acres.

Now, I have heard assurances of meteorologists who have indicated it is too early to press the drought panic button, and I guess maybe I am saying maybe it is just a little bit too early, but I do not think it is too early to know where that button is.

So has the ASCS considered the early release of ACR land for haying and grazing?

Mr. NEPPL. Yes; we have considered it, Senator. In fact, we have sent a notice to the field on the process for release of ACR and conserving use acreage for haying and/or grazing during the prohibited 5-month period.

Senator GRASSLEY. An issue that I have discussed with the cattlemen in Iowa was the buyback of set-aside acres for the purpose of haying and grazing. The arguments advanced in support of this concept are that it would provide better control of the use of these acres and provide a return for the Government.

Has the ASCS considered implementing this type of proposal in place of the current disaster program, or maybe I should rather say as part of the disaster program?

Mr. NEPPL. We have looked at it. We looked at it a year ago, and it was the advice of our counsel that we could not, in fact, make a charge to the producer for the use of this acreage for haying and grazing, apart from the CRP acreage.

Senator GRASSLEY. By the way, I do not disagree with that. I think we knew that maybe it would take new legislation.

Mr. NEPPL. That is correct. According to our attorneys, it would require legislation, because we are not permitted to make a charge, with the exception of the CRP acreage. Last year we did make CRP acreage available to producers for haying purposes due to the drought, in exchange for a reduction in the annual rental payment.

Senator GRASSLEY. My feeling about this is, and it is more related to the Federal lands and the Bureau of Land Management, but the extent to which those Federal lands are released or are rented to cattlemen for grazing purposes, it seemed to me like, you know, on a yearly basis, in a sense, this land that we are talking about is rented to the Federal Government in the sense that it is set aside, that we ought to give that same privilege to Midwestern farmers like we do Western farmers, and probably for about the same rate, if there is a need for it.

I mean, I am talking about as part of a disaster program. I am not talking about just on an ongoing basis.

Mr. Chairman, that is all my questions and thank you very much for your tolerance.

WETLANDS PROPOSAL FOR GARRISON DIVERSION UNIT

Senator BURDICK. Mr. Scaling, I understand that the swampbuster law may apply to irrigation projects under the Garrison Diversion Unit. As you know, the Garrison project is fully mitigated. That is, each acre of wetlands taken for the project must be replaced by a similar acre of land elsewhere.

Due to this practice, I understand that it in the opinion of SCS the project would be exempt under the minimal effect provision of swampbuster. In this regard, what is the status of your talks with the Fish and Wildlife Service, inasmuch as they must concur in all minimum effect exemptions?

Mr. SCALING. Mr. Burdick, I sent a letter outlining a minimal effect determination on the Garrison project to the Fish and Wildlife Service asking for their concurrence; however, we have not heard anything back from them on that yet, sir.

Senator BURDICK. Well, would you continue to find out, and I will continue to find out.

Mr. SCALING. I beg your pardon?

Senator BURDICK. I will contact him and you continue to contact him, too, until we get an answer.

Mr. SCALING. We are continuing to work with them to try to find a way through this. But that is the status right now.

Senator BURDICK. When did you send your letter?

Mr. SCALING. We sent it about 3 weeks to 1 month ago.

Senator BURDICK. Well, let us keep at it.

Mr. SCALING. Yes, sir; we are. We intend to win this one.

SALES UNDER EEP

Senator BURDICK. Secretary Yeutter has said on many occasions that he intends to use the Export Enhancement Program aggressively to keep the Europeans' feet to the fire during the GATT negotiations. However, for several months commodity groups have been concerned about the lack of sales under EEP and have brought this situation to the attention of Congress and the USDA.

However, no satisfactory response has been received. What is the reason for the small number of sales in recent months, and what is the current 1989 estimate for the export enhancement program?

Mr. KAY. Mr. Chairman, as you know, last year the budget passed by Congress capped EEP for this fiscal year at $770 million.

We had asked for at least $900 million, but the $770 million figure prevailed in the final analysis.

If you look at it now on a pro rata share over the 12 months of this fiscal year, we probably will not make the $770 million. Of course, things have changed since we last met here. We went through a very serious drought. Wheat supplies were reduced, especially the spring wheat and durum, and supplies of soybeans and barley also fell.

There is no question about the fact that, because of the shorter supplies, we had to be more cautious in our approach on the EEP. This is not to say that strides have not been made under the use of the Export Enhancement Program.

China has become our largest wheat purchaser, in this marketing year. The Soviet Union has fulfilled its obligation under the long-term grain agreement, having already purchased some 4 million metric tons of wheat. We have been able to do some barley, not as much as we did last year. We have been able to do some durum, not as much as we were able to do last year. We have been able to do some spring wheat, some soft wheat, some white wheat, but not as much as we have before.

INTERAGENCY REVIEW OF EEP

As you know, Mr. Chairman, we are going through now in the Department of Agriculture an interagency review. We have had cooperation from ASCS, ERS, and our budget office at the Department.

We have been asked to do this review by the Office of Management and Budget. For some strange reason, they have decided that we are violating the criteria that we announced with regard to the administration of the Export Enhancement Program when we first started the program in 1985.

The claim is now that the Export Enhancement Program is no longer budget-neutral, and right now all new initiatives are being held in abeyance until this review has been completed.

It is my hope that the review will soon be completed and that we will have the green light to proceed once again with our Export Enhancement Program in an aggressive way.

Senator **Burdick**. Thank you very much. We are very interested in this subject.

But right now we will have to call a recess for about 10 minutes. There is a vote on the floor, so we will be back.

[A brief recess was taken.]

Senator **Burdick**. Mr. Kay, you started to speak in regard to EEP, about the interagency review. What is happening? Who has the final say on EEP and what is the holdup?

Mr. **Kay**. Mr. Chairman, I would like to think that the Department of Agriculture had the last word, but I am not so sure that is the case. We will present our study to OMB at the time the Secretary of Agriculture deems appropriate. Then we will see if we can settle the issue among ourselves or determine whether it has to go up to the Cabinet for a decision.

Senator **Burdick**. Well, if you cannot do it, if the Cabinet cannot do it, try the Congress.

Mr. **KAY**. The Congress has been known to do it before, Mr. Chairman.

FISCAL YEAR 1990 PUBLIC LAW 480 REQUEST

Senator **BURDICK**. On Friday it was reported that the USDA would be revising the Food for Peace allocation to provide immediate assistance to Sudan and Sri Lanka and Uganda. Do you expect that these reallocations, as well as the transfer of $10 million from title I for Sudan, will impact your original 1990 request for Public Law 480?

Mr. **GOLDTHWAIT**. We expect to be able to meet these additional requirements within the original budget allocation for Public Law 480. The planning that we do at the beginning of the fiscal year reserves a certain portion of funding under title I for allocation later in the fiscal year to respond to food needs that cannot be anticipated at the beginning of the fiscal year.

So it is from this area that we would expect to meet these needs.

EFFECT OF WORLD FOOD STOCKS ON PUBLIC LAW 480

Senator **BURDICK**. Earlier this month the U.N. Food and Agricultural Organization said that the world food stocks of grains, sugar, dairy products, and vegetable oils were only 16 percent of expected consumption this year. How will this shortage impact the demands for title II relief?

Mr. **GOLDTHWAIT**. I think the chief impact may be in terms of which commodities can be made available under the title II docket in the next fiscal year.

We do believe that we will be able to provide adequate programming of the commodities which remain available, so that we can meet the most urgent needs under title II.

Senator **BURDICK**. Are titles I and III requests expected to increase, or will they be supplanted by title II requests?

Mr. **GOLDTHWAIT**. We expect that the level of funding for title I will remain roughly similar to the current year level. However, as Mr. Bailey indicated in his remarks, because of price adjustments we expect that slightly more total tonnage will be purchased with this funding.

Senator **BURDICK**. Welcome to the committee, Senator.

Senator **KASTEN**. Mr. Chairman, thank you.

Senator **BURDICK**. You are recognized.

CONSERVATION RESERVE PROGRAM ENROLLMENT

Senator **KASTEN**. Gentlemen, welcome. I wanted to ask you a couple of questions about the conservation reserve and also the swampbuster and sodbuster provisions of the 1985 farm bill. But let me just begin.

Mr. Neppl, there currently are 28 million acres in the conservation reserve. What kind of land is going into the Conservation Reserve Program and what is the geographical distribution to date?

And then my next question is, with the more recent expansion of eligibility to include wetlands, what percentage of the remaining 12 to 17 million acres do you anticipate will be wetlands? So I want to get a sense as to the geography across the country, but also a sense as to what kind of lands are going into the conservation reserve program.

Mr. NEPPL. First of all, Senator Kasten, the lands that are entered into the CRP meet the highly erodible, fragile land criteria as determined by the Soil Conservation Service for eligibility for the CRP. The most recent signup, the eighth signup, held in February, did expand the universe of eligible lands for CRP purposes to include cropped wetlands and also lands subject to scour erosion. This made about another 5 million acres nationally available for the program.

The principal enrollment into the CRP has been through the Great Plains States, going from Texas, Oklahoma, on up through the midsection of the country, into Montana, Dakotas, Minnesota, Iowa, and Missouri.

I do not have data from the last signup to talk about at this point, so I am not able to tell you the percentage of enrollment of cropped wetlands and land subject to scour erosion. We should have those figures some time in June.

Senator KASTEN. I wonder, or I would ask unanimous consent, Mr. Chairman, that we would ask Mr. Neppl to provide those figures to the Committee when they become available.

Mr. NEPPL. We will provide them when they are available, yes, sir.

SODBUSTER DETERMINATIONS

Senator KASTEN. Mr. Scaling, since the implementation of the conservation title of the farm bill, the 1985 farm bill, only 494 producers have been determined ineligible under sodbuster, with a loss of benefits of only $1,005,000, according to our records at the end of February. Is that correct? Are those numbers correct?

Mr. SCALING. That would come under ASCS.

Senator KASTEN. We have got 494 producers and a loss of benefits of just over $1 million.

Mr. NEPPL. Yes; that is correct as of February, and the loss of benefits results from payment reductions.

Senator KASTEN. With regard to swampbuster, our records show 345 producers have been determined ineligible and the loss of benefits of $739,000. And I am also told that a majority of these cases in both cases, but particularly with regard to swampbuster, are on appeal.

Is that correct? Are the numbers right, 345 producers? Are my numbers close?

Mr. NEPPL. Yes; and about three-quarters of a million dollars of payment reductions for swampbuster violations.

Senator KASTEN. And am I right that a number of those cases are on appeal?

Mr. NEPPL. That is correct.

Senator KASTEN. Now, there are also other reports from various organizations, mostly conservation organizations, but a large number of organizations, about overall spotty enforcement in various parts of the country.

But if these numbers are right, 494 producers nationwide, 345 producers under swampbuster nationwide, over the period of what, 2½ years that we have been supposedly enforcing this, what kind of a commitment of enforcement do you think these low numbers indicate?

Mr. **Neppl**. Well, I think they reflect reality.

Senator **Kasten**. And that is that this is a difficult law to enforce and that a number of people have decided just to look the other way?

Mr. **Neppl**. No; I think that producers are cognizant of the provisions of the law and the fact that if they break the law and go forward with swampbusting or sodbusting they are subject to denial of program benefits. I think that is a great deterrent. It would be to me.

Senator **Kasten**. And, therefore, the low number of people who have been determined ineligible is in your view an indication that the vast majority of people are, in fact, complying and, therefore, we do not have to go through the ineligibility process?

Mr. **Neppl**. That is our belief.

WETLAND INVENTORY

Senator **Kasten**. Well, I want to work with you more carefully with regard to that because, as you know, there are some differences of opinion on that question. And I think it is important that the law be enforced, particularly with the commitment that President Bush is making to conservation and in particular to swampbuster.

There is a wetlands inventory being conducted in the State of Wisconsin at the present time. How many States will be involved or have been involved in these kinds of inventories?

Mr. **Scaling**. Eventually we will get to all of the States, sir. As of right now, approximately 30 States are involved in this.

WATER QUALITY IN CONSERVATION PLANS

Senator **Kasten**. Relating back to my previous question, I am hopeful that this inventory will lead to increased enforcement of swampbuster, and I think this will give us a tool to find out whether, in fact, the premise that I am operating under or the premise that Mr. Neppl is operating under, who is closer to right.

And so I look forward to you working on these inventories and completing them.

One of the issues or proposals that some of us have been thinking about in terms of the 1990 farm bill with regard to the conservation title is an interest in linking conservation plans that are being designed to reduce soil erosion.

Do you think it would be helpful from the SCS' view to add a water quality component to the conservation title in the 1990 farm bill?

Mr. **Scaling**. No; I do not, sir. I believe the private sector will make water quality work. The private sector is the solution to water quality and water quantity. The private sector can be involved; they can be informed with the best management practices that we have in our field office technical guides as we continue our work in conjunction with the Extension Service through education and technical assistance. That is what is going to make our water quality plans work.

Senator KASTEN. In effect, the conservation plans are going to be developed by the private sector, by the individual farms?

Mr. SCALING. Yes.

Senator KASTEN. And then those conservation plans are going to in a sense be approved by SCS, and then they have got to be implemented. The plan has to be in place by 1990 and implemented by 1995.

Mr. SCALING. Yes, sir.

Senator KASTEN. So that is the private sector.

Mr. SCALING. Yes.

Senator KASTEN. So it would not be inconsistent to, along with the consideration of what ought to be in that 1990 plan that each private sector farmer is going to be submitting, to talk about water quality? Or do you believe it would be inconsistent to put it in as part of that plan?

Mr. SCALING. Everything that we do in the Soil Conservation Service with compliance plans is having a definite effect on water quality. Each time we produce a plan or implement a plan, it is improving water quality throughout the Nation. So, in effect we are already working on this.

Senator KASTEN. Well, all right, good. I would like to pursue this with you at another time. I know a lot of what you are doing in other areas relates directly to the water.

In Wisconsin right now water quality is an increasingly important issue, and more people are interested in trying to figure out the best way to tackle it.

Mr. Chairman, I thank you.

Senator BURDICK. Senator Cochran.

STAFFING NEEDS

Senator COCHRAN. Mr. Chairman, thank you very much.

Mr. Secretary, I know that the next thing that is going to be coming before our subcommittee that will directly affect these agencies will be the supplemental appropriations bill. We will have an opportunity to review that very soon.

I know there is some money the House is putting in the bill for ASCS, and there may be other agencies included of which I am not aware.

To what extent should we review the staffing situation of these agencies and consider adding some funds in the supplemental to be sure that we have the manpower resources available to the managers to do the jobs that they are required to do by the law?

Have you taken a look at that, and would you have any recommendation that you could share with the committee this morning on that subject?

Mr. BAILEY. On the ASCS supplemental, sir, I would like to defer to Vern Neppl. If you want to pursue it more broadly, on an agency-by-agency basis about how best to approach some of the staffing requirements, we could do that also.

Senator **Cochran**. That is what I would like to have your reaction to right now. Do you have enough people in these agencies to do the job that you are required to do by the law?

Mr. **Bailey**. We are doing the best we can with the people that we do have and with the budget constraints that we do have. As Mr. Kay pointed out earlier, the requirements placed on FAS have increased immensely over the past few years, and he is concerned about his ability as Administrator to effectively monitor the appropriate administration of some programs.

In ASCS our requirements, ASCS' requirements, vary appreciably from year to year. Sometimes we have a drought, which means we have huge amounts of one-time paperwork requirements we have to fulfill. So there is a little bit of a difference between FAS' situation and ASCS' cyclical staffing needs which requires the supplemental appropriations.

FAS STAFFING CONCERNS

From FAS' standpoint, I would certainly like to have Mr. Kay have an opportunity to review briefly with you some of the current concerns he has about his ability as an administrator to make sure we in the Department are administering the programs properly.

Tom?

Mr. **Kay**. Senator Cochran, unfortunately FAS is not in the supplemental, so I will try to speak objectively here. The situation is, in fact, strenuous for FAS. Our program responsibilities have tripled and we operate now with less personnel than we had in 1979.

When you consider the fact that we are basically a small agency, with approximately 260 people overseas, counting our counselors, attachés, and foreign nationals, that leaves just about 600 here at home.

The 1985 farm bill mandated 12 new export programs. The Omnibus Trade Act passed last year added other new programs, like the establishment of a trade assistance office, the responsibility to send our returning attachés out to the States to help them in their marketing activities. There is no question about the fact that we are strained to the limit.

Our people are under stress. As I told the chairman a little while ago that at the end of the last fiscal year when I had to sign the vulnerability statement, I felt that in all honesty that, unless I had some relief personnelwise, I indicated that we are vulnerable to waste, fraud, and abuse, not because of dishonesty but because of the burden that has been placed upon us.

My people at FAS are a proud people. They do the very best they can. But you can only stretch the rubberband so far.

I would like to interject this about the supplemental, and apologize to my friends at ASCS and Farmers Home. When I found that the supplemental was coming forward, I was told that in order to pay for the supplemental that there would be an across-the-board reduction from other agencies of the Department of Agriculture.

I sympathize with the work that ASCS had to do under the drought, which was a disaster as far as our country was concerned, and for Farmers Home. But I take some umbrage to the fact that we will be penalized at FAS by some $1 million by having to do that.

If that is the case then, we will have some tough times keeping our operations going overseas, and keeping our operations going at home. Since 1985, overseas inflation and the exchange rate losses have increased our expenses overseas by some 57 percent, just 13 percent last year alone. And we do not see any relief in that area.

So I must say, speaking for FAS, that we are hard-pressed resourcewise, both in money and in personnel, Senator.

ASCS SUPPLEMENTAL REQUEST

Senator **Cochran**. For the programs under the jurisdiction of the subcommittee, are there specific requests being made by the Department for funding in the supplemental appropriation bill?

Mr. **Bailey**. Bob?

Mr. **Sherman**. Mr. Chairman, Senator Cochran, the request includes $40 million, that would be spent out of such sums as may be necessary, for the operation of ASCS drought programs.

The reason for the request to have such sums as may be necessary, as you know, is the volatility of the requirements and the demands created by the different natural disasters that occur month by month, as the program progresses, and as this year progresses. Therefore, it is uncertain what the workload demands will be on the county offices.

While our current estimate is that it will require approximately $40 million to carry out drought workload through the rest of this year, that could fluctuate with the change in circumstances over the next few months. That is the principal item in the President's supplemental budget request that is under this committee's jurisdiction.

Senator **Cochran**. Is the money to be used for personnel, to hire temporary personnel, or for what purposes are the funds to be used?

Mr. **Sherman**. The money will be used primarily for the operation of the county offices.

Senator **Cochran**. Is that to go for salaries? What is the money to be used for specifically?

Mr. **Neppl**. Senator Cochran, ASCS has about 2,487 unfunded workyears that the $40 million is intended to cover. The 2,487 workyears resulted from the additional activities in connection with the drought disaster program that we are administering this year.

Senator **Cochran**. Does that mean that, yes, it will go to pay people?

Mr. **Neppl**. It means that, yes, it will go to pay people's salaries in order to have enough personnel on hand throughout the balance of this year to take care of the responsibilities of program administration.

ASCS TEMPORARY EMPLOYEES

Senator **Cochran**. I understand that there are temporary employees who now work for ASCS who have been working there for 3 years. Is that correct?

Mr. **Neppl**. Intermittently, certainly, for 3 years, because we do have on our employment roster somewhere in the neighborhood of 10,000 to 11,000 temporary and part-time employees who are drawn into the county office work force on an as-needed basis in peak workload periods.

We have a ceiling in the neighborhood of 13,250 or thereabouts of permanent full-time positions that we have been authorized for the agency at the county office level. And these positions then are augmented with part-time and temporary employees during peak workload.

AUTOMATION OF FARM PROGRAMS

Senator **Cochran**. It may be just a coincidence, but it seems to me that we have been going from one crisis to another in the Department of Agriculture. I know that is partly due to adverse weather conditions that have plagued the country.

There have been a lot of changes in programs because of legislation enacted by the Congress. I know the Farm Credit Act was an effort to try to provide some additional refinancing and restructuring opportunities to farmers who were in serious debt situations. It provided an opportunity for access to financing through the Farm Credit System as well as through the Farmers Home Administration, on a reasonable price basis, so that we would have a domestic agriculture industry after this series of problems that have befallen agriculture.

Because it does administer these programs and has to do a lot of on-the-ground work in terms of signing up farmers and helping make sure they are qualified or eligible, ASCS does have a lot of strain and stress in their offices.

But I tell you, I am getting a lot of calls and expressions of concern from individual farmers, also employees, whom I urged to tell me what life is really like in the county office. They are trying to cope with the new regulations that are being promulgated and which conflict with other agency rules, and they are having to use new, complex computer programs.

When a farmer is trying to sign up and become eligible for a program payment, he finds that by qualifying under ACSC rules he automatically made himself ineligible for a Farmers Home Administration loan in the process. Things of this kind just seem to be coming to the front and coming to my attention in large numbers these days.

Let me get specific. I have had one complaint referred to me that says it seems like the computer programmers are designing the computer programs so that they will fit the computers, not that they will comply with the intent of Congress or with the laws as they have been passed by Congress.

To what extent do you think computer program designing is becoming a problem?

Mr. **Neppl**. Well, I would take issue with the conclusion that some of the people may be representing to you, that our automation systems are driving our program, because we have taken particular precautions so that that would not be the case.

We have had the challenge, if I might call it that, of automating our county office system, our program delivery, simultaneously with the adoption and the implementation of the provisions of the Food Security Act of 1985, a new and much more complicated and complex set of programs, that arrived at about the same time as our automation equipment arrived.

This automation equipment was procured the year or two before the enactment of the new law. In many cases, it proved to be inadequate for the number of transactions and the amount of work and data which we required to carry out the program provisions.

We have had to beef up, if you will, the capacity of these systems by replacement with larger units that provide a greater turnaround. We have put on some attachments to the computers to speed up their activity and responsiveness.

But it has been a continuing challenge. But at the same time, we feel that we are doing the best that we can with the available resources to meet the needs of the producers that we are required to serve with program delivery.

DEVELOPMENT OF FARM PROGRAM REGULATIONS

Senator Cochran. Another problem that I have also heard is the complexity of regulations that are reaching the county offices. They are so complex and the uses of phrases and words are so complicated that nobody can really understand what they are supposed to do when they get the regulations.

It seems to me that one way to get at this problem might be to have an internship program where you send these regulation-writers down to the district offices and let them work down there for a week and try to apply the regulations they have written to the factual situations that come into those offices. I think that would be a good thing for you to institute. What would be wrong with trying to do that?

Mr. Neppl. Well, we do send our people out to the field on a regular basis. But we also do the converse of what you are suggesting, and that is we bring in people from our county offices into Washington and into Kansas City to help design and write the programs so that our county office people can understand them.

In the past 3 or 4 years, we have brought about 75 people out of county offices into our Washington office and into the Kansas City offices where the software is developed for these programs, so that we do have grassroots knowledge, contemporary vocabulary being used in writing and developing the software, and also developing and writing the notices that our county office personnel work from.

And we are doing it both ways at the present time, Senator.

Senator Cochran. Well, I hope you can address this problem.

Mr. Neppl. But as far as the concern that you are hearing from the field, I would say that you have good sources, because there is a lot of stress and frustration among county office personnel.

We have the challenge of trying to provide uniform direction, uniform program administration, through a system of 2,800 county offices nationwide who are operating under the auspices of 8,500 county committeemen. And to get all of these people trained and informed and educated as to the intent of our programs and interpreting them the same way uniformly across the country is an ongoing challenge.

Senator COCHRAN. Well, I am convinced that it is a challenge and it is a tough job. But I really think that the seriousness of the stress that exists out there needs to be addressed. It needs to be taken into account.

It may very well be a great morale-booster if you would take the suggestion that I just made to you and send some people around to those county offices and let them see what goes on during a regular workday or a workweek. Maybe what they learn and the observations they make can make, in turn, the regulations more realistic, more workable, more understandable.

Maybe they will find out that a phrase that does not make any sense or has no practical application can be changed. Maybe there are some other words that can be chosen and put into those regulations that ordinary mortals can understand.

I think that really is a goal that ought to be achieved if it is at all possible, and I think it is possible. I hope you will take this back to the agency and redouble the efforts to make these programs less complicated and less stressful in their administration than they presently are.

I have not even mentioned the stress and the frustration that exists on the part of farmers. They are spending more time in the county offices than they are in the fields. They are trying to figure out whether they are eligible for program payments, to what extent their farm plan meets the requirements of the new regulations, and how they can keep themselves from running afoul of the law and getting in serious trouble, indicted, or prosecuted in some way. Their intent is simply to take advantage of the opportunities for participating in legal Government-authorized commodity support programs.

Now, there are some that you know and I know go too far and go beyond the law and the regulations and try to get through imaginary loopholes that they think they should do in order to maximize their financial benefits when they should not be doing that. I do not have any sympathy for that situation.

But for the farmer who is trying to organize his farm in a way that would permit him to take full advantage of the support programs of the Government in a legal way, I think that is fine. The ACSC and Farmers Home Administration should not try to regulate that person to the extent that he is frustrated in that effort.

Having said all that, I want to get to a couple of other points. I do not want to take up all the time; but I would like to ask another question or two of the other agencies.

STATUS OF CONSERVATION PLANS

The Soil Conservation Service continues to do a very important job in providing technical assistance to landowners in preparing their conservation plans. Under the law there is a requirement that conservation plans on highly erodible land be prepared, filed, and approved by the SCS by certain dates.

Could I have a report on the status of the approval of conservation plans, Mr. Scaling? How is that going, and what problems, if any, are you having in that regard?

Mr. SCALING. Senator Cochran, nationwide we are 78 percent complete on our compliance plans that need to be finished by the end of the year. I anticipate no problem at all in finishing the compliance plans for every operator that wants one.

Of course, you have some that do not want one. But anybody who wants a plan will have a plan, a workable plan, one that makes common sense and is economically feasible and defensible, by the end of the year.

And yes, my people are under stress also.

Senator COCHRAN. Well, I know that the staffing questions did not really get referred to you for a comment by the Secretary, but I am assuming—I know that you have similar problems as those expressed by Mr. Kay. Is that not correct?

Mr. SCALING. Yes, sir.

Senator COCHRAN. I do not know what we are going to be able to do about it. I would like to see this committee put into the supplemental appropriations bill an amendment that would add some funds for those agencies that are caught in a squeeze. It is an emergency situation where they may end up violating requirements of the law simply because they do not have the personnel to carry out their functions as required by the law.

To me that is an emergency situation, and it ought to be addressed in the supplemental appropriation bill. We ought to consider that. That is why I wanted to ask the question today, because this is the last chance we are going to get an opportunity to talk to you about this before we have to go into that committee room and actually vote on a supplemental appropriations bill.

Mr. BAILEY. Senator Cochran, I think you are on a very insightful course here. The Department of Agriculture is no better than the people who provide the services to our clients, and in doing our jobs we are becoming increasingly burdened with new programs in one form or another.

We have a little dichotomy here in the sense that we—we collectively being the Government—respond most quickly to the closest problem. In this case it is the farmer in a county office whose problems we hear about. But no less of a problem is the problem that Mr. Kay brought up in the sense of the ability of the Foreign Agricultural Service to continue to do its jobs, administering programs and providing the analytical resources that it brings to our decisionmaking process.

But it is not the squeaky wheel at this juncture. Its problem is more pervasive, more insidious, the inability—or not the inability; that is the wrong term—but not being able to fully do things as well as they would like to.

So it is the squeaky wheel aspect of ASCS that is visible now, but do not forget the more long term, more pervasive problems that we may have in FAS when it comes to them doing their jobs. And it is with that in mind that I think you are on a very appropriate course.

TREE PLANTING UNDER CRP

Senator **Cochran**. I am aware of a problem in the administration of the Conservation Reserve Program under the jurisdiction of the Soil Conservation Service. You do have something to do with that?

Mr. **Scaling**. We determine the eligibility of the land and then help the producer plant what he wants on it. Then it is ASCS' program after we certify that the plantings are complete.

Senator **Cochran**. Right. I am concerned about one aspect of this program. I am all for the CRP Program. I think it has done a world of good and has really helped conserve a lot of marginal lands, and I think it will in the future.

We had a goal in the law that envisioned that there would be a much higher percentage of land planted to trees than we are seeing in the administration of the law. I know it is more expensive and in many cases a farmer or a landowner may be reluctant to make that kind of commitment of his land for that purpose. He may be thinking that lightning will strike or that soybean prices will go to $12 a bushel, and he does not want to have 10-foot-high pine trees all over that field when that happens. He wants to be ready in case that happens and go back in there and plant soybeans or whatever. But I just suspect that that is a human nature kind of problem that we are dealing with.

To get around that, what would be your reaction to providing some kind of incentive, maybe a longer term rental payment, to encourage the planting of trees in those areas where that would be the more economically feasible thing to do?

What is your reaction to that?

Mr. **Scaling**. Senator, this is ASCS' program.

Senator **Cochran**. Well, you help them plant these things. You are out there talking to them. That is why I wanted you to answer it.

Mr. **Scaling**. We have reduced the criteria for eligibility in order to entice more tree planting. Vern, I think we have done everything humanly possible that we could do in order to entice more tree planting into the program nationwide.

Other than that, Senator, I have really got to let ASCS answer that question.

Mr. **Neppl**. That is true, we have offered some additional incentives to make tree planting more attractive to farmers who do have highly erodible land that they want to enroll in the program. And the suggestion that you make, that we accept that land for a longer period of time—well, it is not provided for in the regulations that we are working under at the present time, although the Food Security Act permits a maximum of 15 years.

Senator **Cochran**. I know it. That is why I am asking. We can change that, you know.

Mr. **Neppl**. And if that would be an added inducement to attracting more tree acreage, why, we are all for it in fact, and I see no objection to having a new program in which the land could be enrolled for a longer period of time, 20, 25 years, or whatever——

Senator **Cochran**. Or maybe 15 instead of the 10 that we have now.

Mr. **Neppl** [continuing]. Until they could take a crop off it. But we do not have the authority to make that kind of determination.

Senator **Cochran**. What is your reaction to having the 15 years instead of the 10 that is provided in the regulations now? Would that make any difference?

Mr. **Neppl**. Well, I question whether the trees would be marketable or harvestable for commercial purposes.

Senator **Cochran**. They would not be. They are not marketable in 10.

Mr. **Neppl**. No.

Senator **Cochran**. But we have this incentive that we are trying to develop to help encourage the planting of trees. It is not designed to pay rent for the whole life of the tree.

Mr. **Neppl**. Well, it is true that we are not meeting our target, which was 12½ percent of the 40 or 45 million acres for the CRP.

Senator **Cochran**. Can you think of anything else we can do to help increase that percentage?

Mr. **Neppl**. We did, when we expanded the eligible acreage to include converted wetlands, we made the proviso that trees be planted on that acreage, unless the county committee waived that requirement locally. That was hoped to be an added inducement for getting trees planted.

EXPORT OF COTTONSEED OIL

Senator **Cochran**. In the effort to sell more products overseas in international markets, we have the Targeted Export Assistance Program, the EEP Program, and other credit arrangements that we make with foreign purchasers. I was wondering to what extent we can look forward to increased sales of cottonseed oil under some of these programs?

Mr. **Goldthwait**. We are looking forward to that very much. We will be sending this week for publication the regulations that will govern the next trenche of this program.

We see considerable market opportunities for utilizing it, particularly in Egypt, Senator.

Senator **Cochran**. I have some other specific questions relating to this product and our sales efforts overseas, which I would like, Mr. Chairman, to be able to submit for the record. I have a number of other questions, too, on other topics that come under the jurisdiction of these agencies and this Secretary, which I would also like to be able to submit in writing for answering for our hearing record.

Senator **Burdick**. They will be submitted.

Senator **Cochran**. Thank you very much, Mr. Chairman.

Thank you all for being here and helping us with our review of the budget.

FARM PROGRAM REGULATIONS

Senator **Burdick**. I have just got one passing thought. Income tax returns were due yesterday, the final date. And if you know about some of the problems you have in following those directions and instructions, it is a little bit balmy. And I wonder if there are some instructions in your Department that create some confusion.

So we talk about all these regulations. Maybe we should make them more understandable. Maybe we should start a drive to have them written in English, if you know what I mean. Is it possible to make it more understandable to these people out in the county offices?

Mr. Bailey. We certainly strive to make them understandable. But having recently completed my income tax returns also, I know that the best of intentions on the part of regulation-writers sometimes get lost as we go through to try and understand what they wanted us to do.

But we make that effort, and we will certainly work with you to try and improve it.

Senator Burdick. And you understand what I am talking about.

Mr. Bailey. Yes, sir; we certainly do.

Senator Burdick. Well, if you can along the way make it more reasonable and understandable, I hope you do it.

SUBMITTED QUESTIONS

In the meantime, additional questions will be submitted by Senators Cochran, Harkin, McClure, Kerrey, and Burdick.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

SALARIES AND EXPENSES

Question: Your budget indicates that salaries and expenses have been reduced partially due to the reduction in conservation programs.

If the conservation programs are funded at this year's level, how much money would be needed to administer them? In other words, what is the corresponding reduction in salaries and expenses because of the conservation programs reductions?

Answer: Although the FY 1990 President's Budget proposes limited funding for the traditional conservation programs, some carryover program funds will also be available. Therefore, county offices will continue to accept program applications, perform needs determinations and approve applications for carryover program funds. However, if Congress restores full funding to the Agricultural Conservation Program, Forestry Incentive Program and other traditional conservation programs, then ASCS would require another $5.9 million in CCC transfer authority for salaries and expenses and 318 county office staff years to administer these programs in FY 1990.

SWAMPBUSTER AND SODBUSTER

Question: Please delineate your answers to the following questions for both the swampbuster and sodbuster laws.

How many producers have been denied farm program benefits as a result of violations?

Answer: As of March 31 there have been 584 sodbuster violations and 427 swampbuster violations resulting in denial of farm program benefits.

Question: How many of these are in North Dakota?

Answer: North Dakota has had three sodbuster violations and no swampbuster violations.

Question: In what States are most of these violations?

Answer: Minnesota has had 27 sodbuster violations and 302 swampbuster violations. Iowa has had 190 sodbuster violations and 9 swampbuster violations.

Question: Are any violations being investigated currently in North Dakota?

Answer: None are being investigated in North Dakota at this time.

DAIRY INDEMNITY

Question: No funds have been requested for the Dairy Indemnity Program. I read recently that some farmers have had to throw out their milk because of aflatoxin contamination.

Because of this situation, are you now anticipating the need for additional money under the Dairy Indemnity Program? If so, how much?

Answer: No. Funds currently available to pay claims in FY 1989 total $579,198. The total of all claims approved thus far is $173,057. Additional claims for aflatoxin contamination anticipated at this time total less than $50,000.

DEFICIENCY PAYMENTS

Question: What is the estimated amount of advanced deficiency payments to be repaid for wheat, corn, barley, and other commodities?

Answer: The estimated amount of repayment for 1988-crop advanced deficiency payments for wheat, feed grains, and upland cotton is as follows:

	FY 1990 (dollars in millions)
Wheat	64
Corn	705
Sorghum	4
Barley	86
Oats	9
Rice	---
Cotton	5
	873

QUESTIONS SUBMITTED BY SENATOR HARKIN

EMERGENCY LIVESTOCK ASSISTANCE

Question: Please provide for the record the number of applications for emergency livestock assistance in connection with the 1988 drought, the number of applications approved and the amount of assistance provided to livestock producers under the program.

Answer: Through March 1989, 180,766 producers applied for livestock feed programs for the 1988 drought. 135,332 of these applications were approved, 30,588 were disapproved and 14,846 had not been acted on. The 135,332 producers approved have received $376.6 million in assistance under the Emergency Feed Program and have purchased the equivalent of 17.9 million bushels of corn at approximately 50 percent of the market price. It is estimated that these amounts will increase substantially before all assistance has been disbursed for the 1988 drought.

Question: There have been a number of complaints about the emergency livestock assistance programs, including difficulty in qualifying, low feed allowances for livestock and other problems. What is ASCS doing to evaluate the program and make changes where necessary?

Answer: To qualify for livestock feed programs, producers must have suffered at least a 40 percent feed production loss and not have sufficient feed for eligible livestock for the feeding period. Assistance is provided for the lesser of the amount of loss or feed needs. The program is not intended to help producers purchase feed that would normally be purchased.

Some producers who applied for assistance were found ineligible because feed crop losses were less than 40 percent, or because feed on hand exceeded feed needs for eligible livestock. No changes are anticipated in these basic provisions.

The qualifying gross revenue limitation and the requirement that substantial income be from grain and livestock are statutory requirements, and therefore must apply barring legislative change.

Consideration is being given to modifying the requirement that multiperil crop insurance benefits be converted to feed on hand to reduce eligibility. Also, ASCS has reviewed and continues to review feed management data to evaluate the daily feed allowances for maintaining various types and ages of livestock.

Question: What changes in the program would ASCS recommend?

Answer: ASCS recommends that the ending date for accepting applications for livestock feed programs be made the same in contiguous counties as it is in the counties that authorized implementation of the programs.

Question: Are changes in the law needed to permit these changes to be made?

Answer: Yes. Section 603 of the Agricultural Act of 1949, as amended, mandates accepting applications in contiguous counties for 8 months after the determination is made that a livestock emergency exists in the declared county.

CORN LOANS

Question: Cattle producers from my State would like to be able to place the grain portion of corn that is harvested as silage under CCC loan. Does the Administrator of ASCS have authority to allow this under the current law?

Answer: Yes, Section 403 of the Food Security Act of 1985 provides that the Secretary may make loans and purchases available to producers on a farm who: (1) for silage, cut corn (including mutilated corn) that producers produced in a crop year, or purchase or exchange corn (including mutilated corn) that has been produced in such crop year by another producer; and (2) participate in an acreage reduction or set-aside program for such crop year.

Question: What is the Department's position on making this change in the program?

Answer: We are opposed to such a change. We would be making price support loans available to producers who would not otherwise meet the program eligibility requirements since the commodity harvested (1) was not intended to be marketed as grain, and (2) does not meet the requirements of the Official United States Standards for Grain.

EMERGENCY CONSERVATION PROGRAM

Question: Many farmers looked to the Emergency Conservation Program for some help in getting water to their livestock last year. Unfortunately, not many were able to obtain assistance, due mainly to the restrictions on eligible projects under the program. What was the level of assistance provided under the program last year and what is the expected level of assistance for FY 1989?

Answer: For FY 1988, $12.5 million was allocated to States for the ECP, of which $8.5 million was designated for drought assistance. It is impossible to determine the level of funding that will be needed for emergency conservation in FY 1989, but we are hopeful that it will be significantly less than last year.

Question: Would ASCS take a careful look at the operation of the program and report back to this Committee as to possible improvements in the program that would allow more farmers to qualify for assistance?

Answer: In view of current funding constraints, we believe that we are not in a position to relax program requirements. However, we have taken measures within existing program guidelines to assist as many producers as possible under the drought ECP.

When the ECP is implemented for a disaster in a particular area, it is a temporary program. However, we have extended the drought ECP by providing two additional signup periods in certain circumstances, making it possible for producers to apply for assistance for an extended period. We feel this has become necessary because of continuing needs due to the chronic nature of the drought in some areas of the country.

QUESTION SUBMITTED BY SENATOR KERREY

CONSERVATION RESERVE PROGRAM

Question: Mr. Bailey, on page 4 of your testimony you state that the Administration is requesting $1.2 billion in new appropriations for the Conservation Reserve Program, "based on plans to reach a 40-million-acre enrollment in the CRP, the minimum level required by the Food Security Act of 1985."

Does this mean the Administration has abandoned the maximum goal established in the Farm Bill of 45 million acres in the CRP by 1990? If so, why has the Administration lowered its sights?

Answer: The Department does not anticipate enrolling 45 million acres in the CRP. The provisions of the Food Security Act together with the 1988 drought have raised commodity prices and reduced stockpiles, and some areas of the Nation are facing the possibility of another drought. The most erodible and economical CRP acreage has already been enrolled. The higher commodity prices as compared to the average rental rates have made it extremely difficult to attract the highly productive, erosive cropland. To obtain more than 40 million acres would require significantly higher rental rates, which cannot be justified in view of current budget deficits.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

NEW "PERSON" DETERMINATION RULES

Question: The 1985 Farm Bill and the new "person" determination rules have placed a tremendous workload on State and county offices. Does the Administration's proposed budget provide adequate funding to retain experienced ASCS personnel, improve morale and improve service to producers?

Answer: The proposed FY 1990 President's Budget of $632.6 million for ASCS Salaries and Expenses includes adequate funds to effectively carry out the daily operations of the ASCS State and county offices. If current program activities continue at their estimated levels, FY 1990 funding will be sufficient to maintain a positive work environment for ASCS personnel, in turn improving employee morale and providing more efficient service to ASCS producers.

However, it should be noted that in addition to the 1985 Farm Bill and the new "person" determination rules, the disaster assistance programs currently being administered in the county offices have substantially increased workload requirements. The FY 1990 proposed funding request for ASCS salaries and expenses includes anticipated reductions in staff-year requirements associated with the completion of disaster program workload, which could only result from approval of our FY 1989 supplemental appropriation request. Without supplemental funding, workload not completed in FY 1989 would carry over into FY 1990 and require additional funding resources in FY 1990.

Question: Has ASCS given consideration to improving communication of program changes and procedures to improve service and efficiency in local offices?

Answer: A great deal of effort has been made and is continuing to be made to enhance the communication needed to effectively relay program and procedure changes to field offices. The agency over the past several years has transferred approximately 75 employees with county office experience to Washington and Kansas City offices to assist with the writing and development of program policy notices, handbooks and application software. This was specifically done at the outset of county office automation so that instructions and automated procedures would reflect an end-user orientation. We have also recently put a mandatory limit on the number of software applications released to the field in a given period of time. This action will substantially reduce the weekly workhours that tie up State and county office computer systems loading software releases. In addition, major program application software being developed for State and county office use must go through rigid end-user testing in our new Kansas City Management Office "usability lab" to eliminate program errors, thus improving county productivity and producer services. To our knowledge, this is the first such civilian government facility in the country whereby end-users are observed as they use new software so that appropriate changes and usability suggestions are incorporated prior to final software release.

Question: The new "person" determination rules were amended five times between publication and mid-April-- the most recent amendment was issued approximately 10 days prior to the deadline for signup. Wouldn't this be sufficient reason to allow producers whose plans are rejected to be provided additional time to correct their plan?

Answer: The final date for submission of Form CCC-502, Farm Operating Plan, is the 15th day after the end of the signup period. For producers participating in the 1989 Acreage Reduction Programs for wheat, feed grains, cotton, and rice, this deadline is May 1.

Producers who are notified after this date that, based on the information submitted on Form CCC-502, they are not "actively engaged in farming" or are not a separate "person" for payment limitation purposes are given the opportunity to administratively appeal that decision to the county Agricultural Stabilization and Conservation committee in accordance with the administrative appeal regulations found at 7 C.F.R. Part 780. During the appeal process, producers may submit additional documentation to substantiate the claim of active engagement in farming or of being a separate "person" for payment limitation purposes.

If the final determination is adverse, the operator of any farm in which the producer has an interest will have an opportunity to withdraw the affected crops, or contract, from the applicable program without incurring liquidated damages.

Question: Was any consideration given to delaying the signup date?

Answer: We have reviewed the manner in which these provisions of the Food Security Act of 1985, as amended by the Omnibus Budget Reconciliation Act of 1987, are being implemented and do not believe that an extension of the period for filing farm operating plans is warranted.

Question: Why has the Department chosen not to implement the "base shift" provisions and "half acreage reduction plan (ARP)" provisions of the 1985 Farm Bill?

Answer: The "half acreage reduction plan" provision of the 1985 Farm Bill has not been needed in addition to the announced acreage reductions to adjust acreage to the desired levels. Participation under the announced programs is expected to be high for the large farm operations that might otherwise be interested in the "half ARP" provision.

Question: Do you anticipate any further changes in the "producer option payment (P-O-P)" regulations for the 1989 crop?

Answer: A loan deficiency payment option has been established under the 1989-crop rice program. In providing this option, ASCS is discontinuing the special rice loan provisions under which some green rice was pledged as loan collateral. There are no changes in the 1989 upland cotton loan deficiency provisions from the previous year.

Question: Has the P-O-P option resulted in a reduction of the administrative burden associated with loan processing?

Answer: The loan deficiency payment option was established for rice with the view that the administrative burden will be reduced in areas where the special rice loan provisions had generated excessive paperwork. However, since these payments are payable only on program yields, producers will likely also use the regular loan program to obtain the marketing loan gain on eligible production in excess of their program yield. Our view is that, on balance, the administrative burden under the rice program will be reduced.

For upland cotton, staff time and recordkeeping requirements are substantially less for bales receiving loan deficiency payments than for bales placed under loan.

CONSERVATION RESERVE PROGRAM (CRP)

Question: As I recall, approximately 12.5 percent of the CRP acreage was to be planted to trees. I have been told, however, that only a little more than six percent is in trees. What do you think accounts for this difference?

Answer: The disparity between the current tree planting rate of 6.2 percent and the 12.5 percent goal reflects the lack of suitable soils and climates needed for profitable tree growing in many areas of the country that have large amounts of erodible acreage. Other reasons include an unwillingness of program participants to grow unfamiliar plants that will tie up farmland for long periods of time, and an unwillingness to change from cropland status to woodland status on CRP land.

Question: What changes have been made in the regulations to try and attain the goal?

Answer: The Administration has expanded the highly erodible land definition for those participants who are willing to plant trees on their enrolled acreage. A field on which one-third of the acres are eroding in excess of two times the soil loss tolerance is eligible for CRP if it is planted to trees. If a field is not going to be planted to trees, the erosion must be greater than three times the soil loss tolerance on two-thirds of the field. The new eligibility criteria established beginning in the eighth signup that allow cropped wetland and scour erosion acreage into the program will also encourage tree planting because tree covers will be required on all acreage enrolled under these new provisions unless local technicians deem tree covers unsuitable The increase in tree cover bids received for the eighth signup of up to 8 percent of all acreage bid is believed to be largely due to these eligibility changes. Similar tree planting results are expected for future signups.

Question: Is it fair to have the same rental rate for grass as for trees?

Answer: Additional compensation in the form of higher annual rental rates or higher cost-share rates for those CRP participants who are willing to plant trees on their enrolled acreage may be justifiable from an economic viewpoint for some producers.

Participants with tree covers will usually maintain the tree covers beyond the life of the contract, and thus possibly save the Commodity Credit Corporation future annual program outlays and reduce surplus stocks. However, tree covers do not always provide superior environmental benefits in relation to grasses, forbs, and shrubs. The environmental needs of specific sites would need to be evaluated to determine which cover types are preferred on those sites. In many instances the actual offering of additional compensation is not warranted because (1) many tree covers exist without any extra compensation, (2) the Department of Agriculture does not have authority to enforce land use patterns after the expiration of CRP contracts, thus many "tree-bonus" trees may be cut as soon as legally possible, and (3) the natural resource benefits in relation to other covers are largely site-specific.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

CONSERVATION RESERVE PROGRAM

Question: My first question is for Mr. Neppl of ASCS and it concerns the Conservation Reserve Program. I have for several months been requesting ASCS to increase the bid limits on certain grounds in Idaho which will more accurately reflect the value of the lands. I am speaking about the bid limits in the Palouse region of northern Idaho and some of the irrigated lands in southern Idaho. These lands are highly erodible but are not entering the Conservation Reserve because the bids exceeded the area limits. For instance, in the Palouse area, bids exceeding $60 are not accepted, even though the land rents in the area exceed that amount. Are you considering increasing the bid amounts in these areas?

Answer: USDA reviews Maximum Acceptable Rental Rates (MARR's) for every pool after every signup and will continue to review those rates. Enrollment activity, percentage of eligible land enrolled, rental rates, land values, environmental benefits and cropland productivity are all used to establish the MARR for a given pool. The relatively low enrollment in the Palouse area has concerned USDA, which is evaluating various alternatives to increase enrollment in the most cost-effective manner possible. However, those MARR's that are increased must not be set at levels higher than the prevailing local rental rates for comparable land as required by the FY 1989 Appropriations Act.

Question: Why are bid amounts exceeding $100 in some areas of the Midwest?

Answer: There are four pools in the Midwest that have MARR's in excess of $100 per acre. The land in these pools has cash rents of from $90 to $145 per acre and is some of the most highly productive and highly erodible land in the Nation. The MARR's established in the Midwest were based on the same criteria as used in the Palouse. There is a comparable relationship between the MARR and cash rental rent in both the Midwest pools and the Palouse.

Question: Why do lands in the West not qualify for these larger bid limits?

Answer: Lands in the Western pools have lower land values, rental rates and yields than land in many of the Midwestern pools. CRP enrollment as a percentage of the eligible land is also much higher in the Western pools. In many Western pools over fifty percent of the eligible land has been enrolled, while in the highly productive pools in the Midwest, CRP enrollment is less than twenty percent of the eligible land.

EMERGENCY CONSERVATION PROGRAM

Question: I am dismayed that the Agricultural Conservation Program, the Emergency Conservation Program and the Forestry Incentives Program are being cut out by the Administration. I fail to see how farmers are to implement conservation measures without Federal cost shares provided by these programs. With mandatory implementation of farm conservation plans by 1995, it appears all the more critical that these programs be in place with adequate funding.

I am very concerned that the Administration is not following through on report language concerning the ECP. The Subcommittee directed funds from this program to be made available to farmers suffering from drought who need temporary irrigation systems and deepening of wells. Why has the USDA ignored the report and conference language dealing with ECP?

Answer: The Department has not ignored this report language and takes very seriously all Congressional directives and report language. The Department wrote to the appropriate Members of Congress on December 9, 1988 regarding this ECP issue. We are providing a copy of this letter for the record.

[The letter follows:]

DEC 09 1988

Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Conference Report 100-990, accompanying the FY 1989 Rural Development, Agriculture, and Related Agencies Appropriations Act, contains language directing that in areas where irrigation is normally practiced, Emergency Conservation Program (ECP) funds be made available for drilling and deepening wells, along with other measures, to avoid drought losses of commercially produced agricultural products. As you know, we take Congressional directives seriously and make every effort to comply with them. However, in this case we are writing to advise you that we do not intend to implement this particular directive.

Well drilling measures, if authorized, would significantly increase the cost of the ECP and the need for additional funding. While ECP funding needs vary from year to year depending upon weather conditions nationwide, history shows that in an average year, $10 million covers rehabilitation practices for all natural disasters, such as floods, tornadoes, and hurricanes, as well as the practices currently authorized for drought. Based on Agricultural Stabilization and Conservation Service (ASCS) experience under the Drought and Flood Conservation Program in the 1970's, we estimate that it would have cost the Government over $100 million to drill wells in 1988 if cost-share funding had been available for that purpose under the ECP. The entire FY 1989 appropriation of $5 million for ECP would fall far short of the anticipated demand for wells, even in a year of mild drought. We believe that expenditures of the necessary magnitude would be inconsistent with the Nation's deficit reduction goals. In addition, we have a number of programmatic concerns regarding the advisability of such expenditures.

First, the Federal cost-share investment would result in significant production-enhancing benefits that would extend well beyond the drought period, putting producers without such assistance at a competitive disadvantage. Second, the time involved in drilling wells could mean an unsatisfactory response time to emergency water needs. A shortage of drillers and the need to obtain drilling permits could extend an already excessive lead-time and tie up program funds unnecessarily. Third, there is a need to study the long-term impact of further depleting the Nation's underground water sources, some of which are considered unrenewable.

In view of these considerations, we believe the most effective use of the available ECP funds will be to confine drought assistance to the emergency water practices now authorized under the program. These include installing pipes, tanks, and troughs for livestock water; constructing tail water recovery pits for irrigation systems; and installing pipes for irrigation purposes involving orchards or certain other limited cases.

Identical letters have been sent to the Members of Congress named on the enclosed list.

Sincerely,

/s/ William C. Bailey

Enclosure

Identical letters have been sent to:

Senate

Honorable Quentin N. Burdick, Chairman, Committee on Appropriations, Subcommittee on Agriculture, Rural Development and Related Agencies
Honorable Thad Cochran, Ranking Minority, Committee on Appropriations, Subcommittee on Agriculture, Rural Development and Related Agencies
Honorable Patrick J. Leahy, Chairman, Committee on Agriculture, Nutrition, and Forestry
Honorable Richard G. Lugar, Ranking Minority, Committee on Agriculture, Nutrition, and Forestry

House of Representatives

Honorable Jamie L. Whitten, Chairman, Committee on Appropriations
Honorable Virginia Smith, Ranking Minority, Committee on Appropriations, Subcommittee on Agriculture, Rural Development and Related Agencies
Honorable E (Kika) de la Garza, Chairman, Committee on Agriculture
Honorable Edward R. Madigan, Ranking Minority, Committee on Agriculture

Question: Do you have any plans to comply with this language?

Answer: We do not, as explained in the December 9 letter.

Question: Why not?

Answer: Briefly summarizing the main points in our letter, the report language would arbitrarily and substantially increase program costs beyond present program capacity to meet yearly nationwide disaster needs. This is based on experience with a similar measure under the Drought and Flood Conservation Program (DFCP) in 1977. The measure would also be impractical in solving immediate drought disaster needs, would be production-oriented, would create inequities, and raises serious questions about further depletion of the Nation's underground water sources.

SOIL CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

SWAMPBUSTER DETERMINATIONS

Question: I understand that SCS has received many requests for commenced determinations under the swampbuster and that the Fish and Wildlife Service is being consulted on these determinations. Please explain the role of the Fish and Wildlife Service in this process.

Answer: The Fish and Wildlife Service assists the Agricultural Stabilization and Conservation Service with determinations by providing consultation. The final decision is the responsibility of the Agricultural Stabilization and Conservation Service, and the Fish and Wildlife Service has only reviewing, commenting, and reporting responsibilities in making swampbuster determinations.

Question: I also understand that SCS is currently reviewing requests for commenced determinations from states other than North Dakota. What states are currently in this review?

Answer: The Soil Conservation Service does not make commenced determinations; the Agricultural Stabilization and Conservation Service has that responsibility. SCS provides information regarding the scope and effect of a commenced activity when our assistance is requested. We understand that ASCS is currently processing some 2,000 requests for a commenced determination in the following twenty-eight states: Arkansas, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia, West Virginia and Wisconsin.

QUESTIONS SUBMITTED BY SENATOR HARKIN

FUNDING CONSERVATION COST-SHARING PROGRAMS

Question: I am very concerned by the proposal in the Administration's budget to drastically cut spending on Conservation Cost-Sharing Programs. Spending would fall from $209 million in 1989 to $27 million in 1990.

These programs have done a lot of good in my state and others in helping land owners protect the soils and natural resources of this Nation. I believe they must be adequately funded.

The combination of several factors make adequate funding of these programs especially important at this time.

First, in order to remain eligible for the farm programs, farmers must begin implementing their conservation plans by January 1, 1990 and have conservation systems in place by January 1, 1995.

Second, the downward trend in target prices has squeezed farm income and reduced the incentive for staying in the farm program, and carrying out a conservation plan.

Third, most predictions indicate lower net farm income in future years as costs continue to rise while prices and income fall.

It is a simple fact that we will not have conservation if farmers cannot afford it. Most of this conservation can be accomplished without unreasonable cost to farmers--so I don't want to discourage farmers from complying with the conservation requirements. But there will be many farms where some help will be needed if we are going to have conservation without putting substantial pressure on farm income.

If we slash funding for conservation practices, I believe we will significantly increase the number of farmers who will stay out of the farm program to avoid the costs of conservation. Many of those who do remain in the program will be hard pressed by the combination of conservation costs and declining net income.

If money can be found within the budget allocation for this subcommittee, would the Administration support maintaining or increasing levels of spending for conservation cost-sharing programs?

Answer: The Administration has indicated its willingness to work with the Congress in determining appropriate spending levels for those programs such as conservation cost-sharing. Priority would be placed on funding those programs that are the most effective in terms of providing significant public benefits. Within the funding levels proposed for USDA conservation programs, the Department has placed the highest priority on providing the technical assistance resources needed to meet the conservation requirements of the Food Security Act of 1985, and on funding its commitments under the Conservation Reserve Program. Other priority areas include the initiation of a coordinated USDA water quality effort, and support for continued USDA rural development objectives.

GROUNDWATER AND SURFACE WATER CONTAMINATION

Question: The budget recognizes that groundwater and surface water contamination from the normal use of pesticides and fertilizers is a growing concern throughout the country. How much of the additional $41.2 million being allocated to the Department of Agriculture will be utilized by the Soil Conservation Service? What will SCS be able to accomplish with its allocation? How soon will we be able to see some results of its efforts?

Answer: The Soil Conservation Service has been allocated $13.0 million of the additional $41.2 proposed as an increase for Department of Agriculture water quality activities. These additional funds will be used as follows:

An additional $3.6 million will be directed to technology development to refine practice standards and specifications to incorporate water quality research results into SCS conservation planning and application assistance. In anticipation of the need for specific management practices in 1990 as states develop and implement the Nonpoint Source Management Programs required by Section 319 of the Water Quality Act of 1987, an interagency effort is now underway to develop the standards and specifications for these practices. This effort involves the Soil Conservation Service, the Agricultural Stabilization and Conservation Service, the Cooperative Extension Service and the US Environmental Protection Agency.

An additional $2.6 million will be directed to accelerate ongoing SCS technical assistance to states implementing nonpoint source control activities and programs in areas with identified regional water quality problems affecting both surface water and groundwater. Increased staff support will be directed to the Chesapeake Bay, the Great Lakes, the five states bordering the Gulf of Mexico, Puget Sound and the 201 counties in the Tennessee Valley Authorities service area. These are all ongoing efforts directed towards achieving nutrient load reduction goals imposed through multi-state and international agreements, and resolving priority water quality problems. Results should be immediate.

An additional $5.4 million specified for hydrologic units will be directed to watersheds with identified nonpoint source surface and groundwater problems. To the extent feasible, at least fifteen percent will be directed to areas with either a goundwater problem, or areas with both surface and groundwater impacts. Initially SCS has identified 250 watersheds as candidate sites and hopes to select up to 37 for increased technical support in 1990. Actual accomplishments in 1990 are hard to predict as they are dependent on the degree of state and private resources directed to those problem areas in addition to federal funds made available. We fully expect to see direct results in terms of quantifiable pollutant load reductions within three years.

SCS and the Extension Service have proposed 8 demonstration projects that will concentrate on demonstrating cost effective agricultural production systems that incorporate proper nutrient and pesticide management for surface and groundwater improvement and protection. The 1990 budget includes $1.1 million for SCS technical assistance related to implementing these projects. Project areas have been identified in eight states and each one addresses a significant nonpoint source, agrichemical-water quality issue. Primary project objectives include:

1. The demonstration of alternative agricultural production systems that minimize the nonpoint source effect of nutrients from agrichemical and animal waste sources, and the nonpoint source effect of pesticides.

2. The demonstration of potential economic, social, and environmental impacts of alternative policy options that protect water quality considering the effects on profitable agricultural production.

3. The demonstration that agriculture can and will respond to water quality issues.

4. The development of improved data to support economic analysis of integrated production systems and expanded national data bases on pesticides, nutrients, soils, and production costs for policy development and implementation.

Four of these projects will build upon pilot efforts within the states in 1989 and the results should be available for transfer within one year. However, statistically verifiable water quality results will take from 3 to 5 years.

An additional $.3 million will be used for resource analysis and environmental assessments based on National Resources Inventory data and agricultural chemical data.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RURAL DEVELOPMENT

Question: The subject of rural development is on every one's mind. The Senate is forming a bipartisan task force to develop a comprehensive rural development initiative for 1989. The Senate Agriculture Committee has already held hearings on rural development issues. It would appear there will be omnibus rural development legislation during this Congress. What role can SCS play in this area?

Answer: The Soil Conservation Service already plays a very active role in rural development, primarily by administering the Department of Agriculture's Resource Conservation and Development Program. The basic thrust of RC&D is to help local communities to help themselves. This is done by RC&D coordinators at the local level. They provide technical assistance for the planning and coordination of activities and projects related to conservation, development, and utilization of natural resources and the improvement of the general level of economic activity in rural communities. Permanent as well as temporary jobs are created as a result of these activities. The latest RC&D program evaluation indicated the economic activity generated by the program is many times the RC&D dollars invested.

Question: Is the Resource Conservation and Development Program (RC&D) an effective program and could this program be expanded to fit into rural development legislation?

Answer: We believe that the program is effective. Local sponsors see the broad objectives provided under the program as a strength because they allow RC&D projects the flexibility to become involved in activities which the sponsors believe meet the needs of rural areas.

For example, RC&D projects have created new jobs; controlled erosion and created recreation, fish and wildlife facilities. Other intangible benefits include fostering a spirit of cooperation among local, state and Federal entities; serving as a vehicle to get local groups and units of government together to discuss concerns, share ideas, and work towards common goals; demonstrating that people are willing to volunteer their time and resources to improve their communities; and helping to develop local leadership, pride and talent.

We believe that the the authorized program objectives currently in the law are sufficiently broad to support the continued role of the RC&D program as part of the USDA rural development effort in the 190 currently authorized and active areas. There are currently about 46 unserviced applications for RC&D areas on hand. Several of the RC&D councils have expressed a need for low interest loans for stimulating new rural development in their areas. However, any proposal to expand the program to additional areas or to include additional purposes would have to be considered in the context of Federal budget constraints and other priorities for limited Federal funding.

QUESTION SUBMITTED BY SENATOR MCCLURE

TECHNICAL ASSISTANCE IN IDAHO

Question: I understand from your statement that the request for the Soil Conservation Service is a reduction of $72.6 million overall. While I question whether the SCS can adequately complete its mission and purpose with a reduction, I do note that within this decrease there is an increase of $7.1 million for the technical assistance program. I understand that this will be specifically directed toward the area of water quality. For the past several years, I have directed an additional $150,000 to the state of Idaho for technical assistance for the state pollution abatement control program, above and beyond the normal allocation for Idaho. This past year is the first year that SCS actually made these funds available. I would like to commend you for following through on the report language and providing the funds as directed. Secondly, I would like to encourage you to continue to follow through in the next fiscal year, as I will be requesting the committee to continue funding this additional technical assistance for Idaho. Do you believe you will have any problem directing these monies to Idaho?

Answer: No, we will be responsive to this Congressional directive if it is part of the 1990 appropriation.

FOREIGN AGRICULTURAL SERVICE

OFFICE OF GENERAL SALES MANAGER

QUESTIONS SUBMITTED BY SENATOR BURDICK

FOREIGN AGRICULTURAL SERVICE - PERSONNEL

Question: Mr. Kay, the 1990 budget includes a total of 706 staff years, 10 less than in 1989, with an increase of $3,203,000 in the 1990 appropriation level. I understand the increase is there to cover a transfer of funds to the State Department. Would you please explain why the Foreign Agricultural Service is absorbing this staff reduction?

Answer: The fiscal year 1990 budget proposes to fund FAS activities at the fiscal year 1989 level. Thus, we are required to absorb the combined effects of inflation at home and abroad, the cost of pay increases and the anticipated loss in overseas purchasing power tied to declines in the value of the dollar. In attempting to do so, we will have to reduce agency employment. Reduction in FAS overseas offices and/or a reduction in programs are also under consideration.

Question: How will this cut-back in staff affect FAS operations?

Answer: Over the past decade, the export program portfolio under the direction of FAS has tripled and now exceeds $8 billion. During this same period, FAS employment has declined by 7 percent. Essentially, we are meeting the basic program requirements of both traditional and new export programs through the realignment of our existing staff. However, in so doing, we are reaching the point where our capacity to execute our program responsibilities with the degree of control and efficiency that is needed, is becoming severely strained.

Of particular concern is that one traditional component of the FAS mission - the essential function of commodity analysis of foreign production, supply and demand conditions - could be affected. This function serves as the analytical foundation for the planning and execution of USDA's export programs and is a critical factor in ongoing trade policy efforts. While difficult to measure in absolute terms, I believe that this is one area where we need additional resources to avoid a weakening in our commodity analysis capabilities.

With respect to our overseas operations, we regard our overseas staff as the "front line" of our export expansion efforts. I believe our overseas offices are essential, not only to FAS but also the Department of Agriculture as a whole. However, the reality of the fiscal year 1990 budget is such that, by absorbing the effects of a straight-lined budget across the full range of FAS programs and activities, we will simply not be able to support the same number of overseas offices as did the fiscal year 1989 budget.

Question: What was the Foreign Agricultural Service's original 1990 recommendation for staff?

Answer: In our original fiscal year 1990 budget proposal presented to the Secretary of Agriculture last summer, a combined FAS/GSM employment level of 850 staff-years was recommended. The Secretary recommended this same level to OMB last September.

Question: Trade legislation passed by Congress last year requires FAS to have a 900 staff minimum. What would be the cost of meeting this authorization mandate?

Answer: I would estimate the costs of funding the additional 68 staff-years needed to meet the minimum staff-year authorization of 900 to be approximately $3.2 million.

Question: How will FAS meet international and domestic inflation expenses in 1990? Will FAS staff receive a pay increase in 1990?

Answer: The budget, as submitted, proposes that FAS will absorb overseas and domestic inflation. Decisions as to how these costs will be absorbed have not yet been made. However, areas under consideration for cutback are: a reduction of at least 10 staff years, closing of some overseas posts, a reduction in programs, or some combination of these. With respect to 1990 pay increases, the President's budget recommends a 2 percent civilian pay increase which would apply to FAS American employees.

Question: Of the 262 staff stationed overseas, how many serve as agricultural attaches? How many are foreign nationals? What is the differential in the pay and benefits to each group?

Answer: Of the 262 employees stationed abroad, a total of 117 are American attaches, counselors and trade officers; 145 are direct-hire Foreign Service Nationals. For fiscal year 1989, the average American salary, including benefits, is approximately $70,000. For our Foreign Service Nationals, the average fiscal year 1989 salary, including benefits, is approximately $40,000.

Question: What efforts has FAS made to improve the language proficiency of its attaches?

Answer: We have made a major effort to expand language training in selected hard languages. We have provided the full 44-week course for officers in Chinese, Japanese and Russian for some years. Since 1985 we have added Arabic and Korean to this list.

In addition, we make every effort to see that employees with limited knowledge of the romance languages receive the full course --20-24 weeks--at the Foreign Service Institute before they are sent overseas. After arriving at post, they are encouraged to enroll in Embassy sponsored classes until they reach a target level of fluency, i.e., a score of 3 in the FSI language proficiency exam.

Due to cost considerations, we are unable to provide full training for a number of countries where the language is useful, but not an absolute necessity, for successful performance at that post. In these cases, we do provide limited training to facilitate a working knowledge of the language. Among the languages included in this category are Danish, Dutch, Indonesian, Polish, Serbo-Croatian, Swahili, Swedish, Tagalog and Turkish.

Question: Has FAS implemented a system of annual reporting of attache's trade leads?

Answer: In fiscal year 1988 we required all FAS overseas offices submitting trade leads to conduct follow-up surveys to determine U.S. supplier response rates and total sales. The reports must be sent to FAS/Washington no later than 2 weeks after the end of each fiscal year.

Question: What is FAS' evaluation of this effort?

Answer: As a result of the trade lead program, reported sales of over $14 million were made during fiscal year 1988. Total costs for the trade lead program were about $200,000 last year. If we look at these numbers from a cost/benefit point of view, this activity is extremely favorable.

STATE DEPARTMENT TRANSFER

Question: Was the State Department transfer included in the Foreign Agricultural Service's initial budget submitted to OMB?

Answer: No, the proposed State Department transfer was not included in the Department's initial budget submission to OMB.

Question: At what point in the budget process was this transfer added?

Answer: We received a directive from OMB in mid-December 1988 to include this proposal in our budget. This was after the final OMB determination on our fiscal year 1990 budget had been made.

Question: Was FAS given the opportunity to amend its initial request, taking into account this transfer?

Answer: We did not amend our initial request because the OMB guidance on the funding of activities previously financed by the State Department had no net effect on the FAS activities already approved by OMB for funding in fiscal year 1990.

Question: For what specific services will FAS be paying the State Department $3,203,000?

Answer: The proposed transfer results from a technical adjustment in the formula used to distribute costs among U.S. foreign affairs agencies for administrative support provided by State at U.S. embassies and other posts overseas. FAS, as well as other foreign affairs agencies, rely on the State Department to provide in-country administrative support services including such functions as budget, fiscal, personnel, building maintenance, motor pool, and security. Agencies receiving these services reimburse State through the Foreign Affairs Administrative Support (FAAS) system.

The fundamental principle of FAAS has been that State should budget and fund all costs of the basic administrative structure required to support its permanent programs regardless of the presence of other agencies at post. These costs are called CORE costs. To the extent that the administrative requirements of other agencies exceed the CORE base, agencies must pay for those services. These costs are called DAS - distributed administrative support - costs. In the past, State has considered telecommunications, security and the higher cost categories of building operating expenses and long term leases to be CORE costs.

Under the revised system proposed in the FY 1990 budget, State will expand FAAS to include building maintenance and operation expenses on State owned and leased space and redefine 585 positions currently considered CORE to DAS. Additionally, domestic charges such as communications, motor pool and medical services, previously excluded from FAAS, will be added. The transfer in the budget from State reflects the costs of these activities as contained in the FY 1990 State budget. Beginning October 1, serviced agencies will reimburse State for their proportionate use of each function.

Question: What agency developed this estimate? How was it achieved?

Answer: The framework of the revised system as well as the individual agency cost estimates were developed by State Department personnel. The proposed change results from a number of directives from State's House Appropriations Subcommittee and the House Committee on Foreign Affairs to revise the method of distributing shared administrative expenses. In advancing the proposed changes to the FAAS system, State does not imply that affected agencies are in agreement. However, State sees no alternative to its advancement in light of the Congressional directive.

Individual agency estimates reflect a proration of the additional costs to be included in the revised FAAS system and is based on agency size and utilization of State administrative services.

Question: What agency will determine future increases in administrative support costs for overseas offices to FAS?

Answer: The State Department will determine future cost increases which are linked to inflation and exchange rate fluctuations. FAS will continue to have some input into decisions affecting costs that are associated with the level of support provided and the future composition of the Foreign Affairs Administrative Support system.

Question: Are you aware of whether there will be any limit on future increases for administrative support costs, such as limiting increases to the rate of inflation?

Answer: I am not aware of any existing or proposed limitations on future cost increases that State may charge. This is one of our principal concerns with the proposal. State has indicated that its support will be provided on a pay-as-you-go basis. Failure to realize appropriations sufficient to maintain current services would directly affect the level of State administrative services necessary to support our overseas offices.

INFLATION

Question: Mr. Kay, there has been some suggestion that FAS overseas offices have difficulty maintaining operations, because the rate of inflation often exceed the appropriations provided for salaries, office expenses, travel, etc. Would you please provide for the record, average inflation figures for a variety of expenses incurred by FAS overseas offices over the past 10 years?

(The information follows:)

Effect of Inflation/Exchange Rate Fluctuations
on Selected Cost Categories
Annual Percentage Change

Fiscal Year	Foreign National Compensation	Rents	Travel
1980	20%	25%	16%
1981	3%	17%	1%
1982	-1%	14%	13%
1983	-4%	3%	-6%
1984	2%	15%	25%
1985	2%	5%	3%
1986	15%	31%	8%
1987	16%	9%	23%
1988	21%	22%	16%
1989 Estimate	17%	17%	17%

Question: How does domestic inflation figure into the FAS budget over the same period of time?

Answer: The domestic inflation rate over the past ten years has averaged approximately 5 percent and has not had a significant effect on our budget. This contrasts sharply with the situation overseas where our operating costs have increased by 57 percent since fiscal year 1985 as the result of inflation and the decline in the value of the dollar.

EXPORT PROGRAMS -- MANAGEMENT

Question: Last year, GAO criticized FAS for its management practices with respect to various export programs, particularly TEA and EEP. Has FAS undertaken any specific changes in its application approval and auditing of TEA and EEP participants during the past year?

Answer: Since the GAO report on the TEA Program was issued, FAS has revised its internal procedures and issued additional instructions to TEA participants many of which reflected recommendations made by GAO. We have improved and formalized the documentation of our internal allocation procedures and activity plan approvals. We have instituted rigorous evaluation requirements and contracted for a series of professionally-conducted workshops to improve the planning and evaluation skills of both FAS and participant staffs. We are also actively investigating evaluation methodologies that would enable isolation and measurement of the impact of agricultural promotional programs on foreign consumption or import of U.S. commodities. All TEA participants are routinely reviewed and audited by FAS' Compliance Review Staff every 12 to 18 months.

USDA is currently doing an internal review of the EEP program to ascertain whether the objectives and criteria for operating the programs have been met.

TARGETED EXPORT ASSISTANCE PROGRAM

Question: What is the justification for the budget recommendation of $200,000,000 for TEA in 1990?

Answer: The $200 million figure cited in the Administration's budget submission is an assumption of the program's operating level based on the need to reduce the level of CCC net outlays during 1990.

Question: What changes has FAS made to show how TEA funding criteria are applied and what basis is used to determine allocations?

Answer: The criteria upon which we base our allocation decisions, which have not changed since the TEA program was initiated in 1986, are published in the Federal Register and include: the identification of an unfair foreign trade practice and the extent to which it has adversely affected exports of the commodity; the degree to which exports of the commodity may benefit from promotional activities; the degree to which the applicant organization represents U.S. producer interests on a commodity or nationwide basis; the dollar amount of assistance requested and the extent to which the organization is willing to contribute resources to the joint project, including the identification of the source of contributions projected that may be provided by the applicant organization, U.S. industry and foreign third parties; the organization's prior export development experience and the adequacy of its administrative and personnel resources for purposes of planning and managing the requested program level; historical export levels of the commodity; the anticipated likelihood of success of the proposed project in terms of increasing exports or mitigating the unfair trade practice or its effects; whether or not the commodity is in adequate supply; and the extent to which the composition of the commodity or product is of U.S. origin. Products whose composition is less than 50 percent U.S. origin, computed on a volume or value basis, are not eligible.

We have made administrative changes and revised internal procedures to better document allocation decisions.

Question: Are small- and medium-sized companies participating in the TEA? If so, how many? What is FAS doing to encourage their participation?

Answer: Approximately 350 U.S. companies are participating in brand promotion TEA activities through agreements with various TEA participants or with CCC under the auspices of an Export Incentive Program developed for a specific commodity. The criteria considered by FAS in its administration of the Export Incentive Program, do not relate to the size of the companies participating, but to the qualification of the products they wish to promote and the capability of those companies in carrying out effective programs, when branded promotion has been determined to be an effective strategy. In their administration of branded programs, the TEA participants, including especially the four regional state group associations, strive for breadth in program participation, thereby including many small and medium-sized firms in their activities. However, since firm size is not a program criterion, we have no way of distiguishing participant companies by firm size.

Question: How is FAS monitoring the contracts entered into by many of its participants?

Answer: All TEA participant records and supporting documentation related to TEA program participation are subject to review and audit by the Government Accounting Office, the Office of the Inspector General and by FAS' Compliance Review Staff. Contract review is an integral part of all Compliance Review audits, which are routinely conducted on each TEA participant project every 12 to 18 months on average.

Question: How many staff does FAS have working on TEA evaluations? Has this number been stable? How are interim and final evaluations of TEA projects conducted? Are adjustments to allocations for projects based on these evaluations? Please provide examples.

Answer: FAS has two professionals working full-time on the development, implementation and monitoring of evaluations. Evaluation is a significant part of the work of all of FAS' approximately 45 marketing specialists each of whom will be expected to conduct at least one in-depth evaluation per year. FAS is also augmenting its own staff resources devoted to evaluation by contracting with evaluation training specialists to conduct seminars in Washington and in three other locations around the country to develop and refine the evaluation skills of its own staff and those of the TEA participants.

Each TEA participant is required to participate with FAS in at least one status review of each activity in its plan at some point in the activity year on a schedule determined by the FAS Commodity Division. The purpose of this review while the activity year is underway, is to ensure that activities are being conducted in an effective and efficient manner and to facilitate mid-year adjustments that may be deemed necessary by the participant, by FAS or both. The participant must also ensure that each activity is evaluated against the specific goals and objectives ascribed to it in the activity plan approved by FAS. This evaluation, which may take place in several stages--prior to, throughout, and at the conclusion of the activity--may be conducted by the participant's own staff, by FAS staff, or by independent experts contracted by either FAS or the participant. The method and scope of each of these evaluations are approved by FAS in the participant's activity plan each year. Subsequent activity plans and budgetary decisions will reflect the outcome and findings of prior year evaluations.

One of the criteria considered by FAS in the allocation process is the applicant organization's ability to plan and manage the program. Of particular interest in this regard is evidence of the organization's effective utilization of objective evaluation techniques. Although the results of such evaluations are more frequently reflected in the design of programs to which funds have already been allocated, they have also played a role in the amount of allocation per se. As an example, an evaluation of their wheat samples program led to U.S. Wheat Associates' decision not to request a further allocation in 1989 for that purpose. An on-site evaluation of sunflowerseed oil promotions in Venezuela, jointly conducted by FAS and National Sunflowerseed Association personnel, was the basis for FAS' decision to deny an additional allocation for that project in fiscal year 1989. Conversely, an evaluation of the California Kiwifruit Commission's TEA program in Japan and Taiwan revealed increases in consumer awareness and sales sufficient to justify an increase in its fiscal year 1989 allocation to expand the promotional effort into other major cities.

Question: Can an increase in exports as a result of specific TEA projects be interpreted as an actual increase in U.S. market share rather than merely maintaining market share? Please provide examples.

Answer: In a number of cases TEA projects have apparently contributed to an increase in the U.S. share of a foreign market. The Rice Council's branded promotion of U.S. long grain rice helped to increase the U.S. share of the Hong Kong market from zero to three percent, a value of $7 million. Since the Florida Department of Citrus launched its TEA promotions in 1986, Florida fresh grapefruit's share of the French import market has risen from an average of about 34 percent to 50 percent last season and its share of the United Kingdom market has risen from four to 21 percent during the same period. The Wine Institute's efforts in Japan help to capture a 16 percent share of that market in 1987, up from seven percent in 1985 prior to the TEA Program.

EXPORT ENHANCEMENT PROGRAM

Question: What is the current 1989 estimate for the Export Enhancement Program?

Answer: The current ceiling on EEP bonuses to be awarded during 1989 is $770 million. This amount is $130 million less than the administration had assumed in the CCC commodity estimates for 1989.

Question: What is the rationale for EEP's recommended increase to $1,000,000,000 in 1990?

Answer: In his testimony before this committee, Secretary Yeutter urged Congress not to impose a cap on the EEP program in fiscal year 1990. The Department of Agriculture believes that the EEP is most effective when the annual level of program activity can be adjusted in response to changing market conditions and the subsidizing practices of our export competitors. For fiscal year 1990, the budget assumes that $1 billion of CCC commodity certificates will be used to support the program. We expect that this amount will be adequate to meet increased competition by the European Community.

Question: Has EEP effectively increased U.S. agricultural exports?

Answer: Yes, exports of grains, oilseeds, poultry and eggs increased as a result in part of the EEP. For example, exports of wheat - which account for about 80 percent of the program - increased from 25 million metric tons in 1985/86 to our current estimate of over 40 million tons in 1988/89.

Question: How do you isolate the effect of EEP from other variables affecting exports?

Answer: We are currently undertaking a review that looks at the EEP and, in the review of literature, have found a number of studies that isolate the effect of other variables on exports. Since the review is not yet complete, it would be premature to discuss specific findings.

Question: How many and which countries have been targeted under EEP? How many of these countries have been actual participants?

Answer: We have targeted 12 commodities in 65 countries under the EEP.

The targeted countries are: Algeria, Bahrain, Bangladesh, Benin, Brazil, Burkina Faso, Burundi, Canary Islands--Spain--, Cameroon, Central African Republic, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Cyprus, Dominican Republic, Egypt, El Salvador, Finland, Gabon, German Democratic Republic, Ghana, Guatemala, Guinea, Honduras, Hong Kong, Hungary, India, Indonesia, Iraq, Israel, Jordan. Kenya, Kuwait, Lebanon, Liberia, Mali, Mexico, Morocco, Niger, Nigeria, North Yemen, Oman, Peru, Philippines, Poland, Qatar, Romania, Saudi Arabia, Senegal, Sierra Leone, Singapore, Soviet Union, Sri Lanka, Switzerland, Togo, Tunisia, Turkey, United Arab Emirates, Venezuela, Yugoslavia, Zaire, and Zanzibar--Tanzania.

The targeted commodities are: Barley, barley malt, dairy cattle, eggs, frozen poultry, poultry feed, rice, semolina, sorghum, vegetable oil, wheat, and wheat flour.

Several countries have not fully utilized commodities made available under the program for various reasons, ranging from foreign currency shortages to shifting demand.

Question: As grain stocks decline, is EEP expected to continue? At what level and at what cost?

Answer: Because of smaller wheat stocks and continued dry weather, USDA is considering EEP initiatives on a case-by-case basis. However, present export forecasts and stock levels do include already approved EEP initiatives. We will continue to manage the EEP in a prudent manner, bearing in mind such factors as U.S. and foreign grain supplies and price differences between the U.S. and foreign subsidizing suppliers. In doing so, we ask that Congress give us the flexibility to do so by not placing a ceiling on the program which has the effect of alerting foreign subsidizers to our program intentions.

Question: Are any EEP exporters subsidiaries of foreign-owned companies? If so, how many and which organizations?

Answer: We do not attempt to determine if companies involved in exporting under the Export Enhancement Program are owned by foreign parties or U.S. parties. Regardless of ownership, the company must have a place of business and agent in the United States upon which judicial process can be served.

AGRICULTURAL TRADE AND DEVELOPMENT MISSIONS

Question: Please provide for the record the location and schedule for each of these Missions.

(The information follows:)

Hong Kong and the Philippines, May 16-20, 1988;
Singapore and Indonesia, March 23-27, 1988;
Mexico, September 26-30, 1988;
Algeria and Tunisia, January 20-28, 1989;
Kenya and Cote d'Ivoire, March 6-15, 1989;

With remaining funds for fiscal year 1989, Missions are scheduled to the following countries:

Egypt and Yemen, June 1989;
Jamaica and Ecuador, June 1989.

Question: Will any work on these missions continue in 1990? What will be the expenses, staff, and resources required to complete these projects in 1990?

Answer: We currently anticipate completing a total of 13 missions by the end of fiscal year 1989. The 13 countries selected represent those countries having the greatest potential for expanded trade opportunities. Missions beyond those scheduled to be completed by the end of this fiscal year would necessarily be to countries considered to be of lower priority where we would anticipate diminishing returns on our investment. As a result, we are not requesting funding for additional missions in fiscal year 1990. We are aware of our continuing responsibilities with respect to follow-up evaluation and reporting. I would estimate the costs in fiscal year 1990 for this activity, including the costs of existing staff not previously funded, to be $350,000. This estimate includes $110,000 for FAS staff, $134,000 for mission follow-up travel, $95,000 for reimbursable details from other USDA agencies and $11,000 for printing and other miscellaneous expenses.

FAS — COOPERATOR PROGRAMS

Question: Are Cooperators subject to reviews on the merits of their programs? If so, how often do such reviews take place? If no, why aren't reviews conducted?

Answer: The marketing plans of the Cooperators are annually reviewed and critiqued by the commodity specialists in FAS/Washington and by our attaches located in the foreign markets where activities are proposed. FAS' approval of each activity considers carefully its likelihood of success in positively contributing to the development, maintenance or expansion of the market for that commodity.

Question: Is there currently any limitation on the time frame for market development of participating cooperators?

Answer: There is no predetermined limitation on the duration of a commodity's eligibility for participation in the Foreign Market Development program. Export market development is a long term effort in a constantly changing world market. FAS annually reviews with each Cooperator the status of its program with specific focus on activities in each market and their respective prospects for success. Activities are continually revised and adjusted, strategies reconsidered, and budgets reallocated to better target limited resources to markets or opportunities offering greater potential returns in terms of increased exports. Continued Cooperator participation may depend on a variety of factors including U.S. industry interest and commitment, levels of domestic and foreign production and supply, foreign competition, the potential for increasing foreign demand, and other variables inherent in a dynamic market situation.

Question: Has FAS discontinued any Cooperator Programs during the past ten years? If so, for which programs and for what reasons?

Answer: Ten Cooperator programs have been discontinued during the past ten years. The Cherry Marketing Institute withdrew because of inadequate supplies of product. Agreements with the California Apricot Advisory Board, the Walnut Marketing Board, Dairy Society International, the Popcorn Institute, the North American Blueberry Association, and the National Wool Growers were not renewed for lack of industry support or interest. FAS terminated its agreements with the Holstein-Freisian Association of America, Brown Swiss Cattle Breeders Association and the American Jersey Cattle Club when they failed to agree to a provision which would have prohibited their sale for export of the commodities they were promoting under the agreements.

Question: Have any new Cooperators been approved during the past year?

Answer: In the last 12 months, FAS has signed project agreements with three new Cooperators--the U.S. Hides, Skins and Leather Association, the American Sheep Producers Association and the California Tree Fruit Agreement. We anticipate signing an agreement this year with one other organization which has applied for participation to represent embryos.

Question: Have any organizations applied for Cooperator status?

Answer: The Corn Refiners Association applied for participation, but is now working with another cooperator which plans to promote the commodity.

PUBLIC LAW 480 — WORLD FOOD DEMAND

Question: What oils and oilseeds are currently available through Public Law 480?

Answer: The vegetable oils currently determined available for export under Public Law 480 are soybean oil, sunflowerseed oil, and cottonseed oil. At the present time, there are no oilseeds determined to be available for programing under P.L. 480.

Question: To date, in what amount will these oils and oilseeds be committed in 1989?

Answer: For fiscal year 1989, the respective amounts available are approximately 470,000 metric tons of soybean oil, 30,000 metric tons of sunflowerseed oil, and 50,000 metric tons of cottonseed oil. We expect to add corn oil to the list shortly.

Question: What are your current projections for 1990?

Answer: The fiscal year 1990 availability determinations will not be made until September; however, at present we assume there will be ample supplies for Public Law 480.

PUBLIC LAW 480 — BUDGET RECOMMENDATION

Question: Why do you expect an increase of $60,000,000 in the ocean and inland transportation charges under Title II in 1990?

Answer: The increase of $60,000,000 in ocean and inland transportation charges for Title II in 1990 is based on our projection of higher ocean transportation rates in 1990 and our continuing efforts to ensure internal distribution of food aid in recipient countries. The increase may be somewhat overstated, since we were able to meet some anticipated fiscal year 1989 freight costs late in fiscal year 1988 funds with unallocated 1988 funds.

Question: Are Title I/III gross commodity costs still expected to decline by $45,000,000 based on your most current estimates? (Please chart the price of commodities at the time of the budget preparation, compared to the most current prices available.)

Answer: No, based on current prices, we expect commodity costs to decline by approximately $42,000,000. A table showing commodity prices under the Title I/III program at the time of the budget preparation, compared to the most current prices will be provided for the record. These prices will, of course, continue to change as will our estimates.

(The information follows:)

Public Law 480, Titles I and III Price
Estimates for FY 1990

Commodity	Unit of Measure	Projected 1990 Prices Submitted for Budget Presentation as of November 1988	Projected 1990 Prices as of April 1989
Feedgrains/ Corn	bushel	$2.40	$2.41
Wheat and products	bushel	4.30	4.90
Rice, milled	cwt	13.20	13.61
Cotton 1/	bale	---	---
Vegetable oil	pound	.257	.242
Tallow	pound	.18	.18

1/ The U.S. Department of Agriculture is prohibited by law from reporting price projections for cotton.

Question: Based on the most current estimates available, would the requested appropriations for Titles I/III and II support an increase of 200,000 metric tons of commodity shipments, for a total of 5,800,000 metric tons, as stated in your budget?

Answer: Our current price estimates show slightly higher prices for grains and cotton and slightly lower prices for vegetable oil. The requested appropriations for Titles I/III and II based on these revised prices are estimated to provide an increase of approximately 75,000 metric tons over fiscal year 1989 rather than the 200,000 metric tons shown in the budget request. However, this estimate will continue to change as prices change.

GENERAL SALES MANAGER

Question: The budget adds $430,000 and ten additional staff to implement and evaluate TEA program activities. Will GSM resources be distributed in a disproportionate manner among the various export programs it administers?

Answer: No, the requested staff will be used to improve the effectiveness in implementing all of the programs within the jurisdiction of the General Sales Manager's office.

Question: Will the GSM staff's on-site compliance reviews of TEA participant programs require domestic or foreign travel? If so, how much and what agency will bear the cost?

Answer: On-site compliance reviews of participants in the Targeted Export Assistance Program will require both foreign and domestic staff travel. Travel related expenses will be about $120,000 in fiscal year 1990, to be paid from FAS appropriated funds.

QUESTIONS SUBMITTED BY SENATOR HARKIN

PUBLIC LAW 480 COMMODITY ELIGIBILITY

Question: I understand that an effort has been underway since last summer to have corn oil included as an eligible vegetable oil under the Public Law 480 program. I hope that approval can move forward quickly. Can you describe the current status of corn oil within the Public Law 480 program? Is approval of corn oil eligibility expected, and if so when is approval expected to be finalized?

Answer: At the present time, a revision of the type and amounts of vegetable oils available for Public Law 480 is underway. This determination should be made very soon and we do expect corn oil to be included as an eligible vegetable oil for export under Public Law 480.

Question: Is the Department considering extending use of the Export Enhancement Program and the Targeted Export Assistance Program to additional commodities? Please describe what commodities are being considered for assistance under these programs.

Answer: Participation in the TEA program is determined by responses to an annual announcement of the Program's availability and solicitation of applications published by the Department in the Federal Register. The Department's allocation decisions consider the merits of each application relative to the criteria published in the Federal Register announcement. There has been an increase in the range of commodities and products covered in each year of the Program, but this does not reflect any deliberate planning on the part of the Department.

The Department, from time to time, is asked to evaluate inclusion of additional commodities under the EEP. As conditions merit and the proper analysis is completed, we will consider including additional commodities. However, we have no plans at this time to include additional commodities.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

TARGETED EXPORT ASSISTANCE PROGRAM (TEA)

Question: The Department has indicated that the TEA program has been a significant contributor to increasing demand for agricultural exports. Does the Administration's budget allow for expanded use of the program by U.S. agricultural commodity groups?

Answer: The President's budget for fiscal year 1990 assumes a program level of $200 million for the TEA program in fiscal year 1990, unchanged from this year. The level of participation in the TEA program during fiscal year 1990 will depend on the program level approved by Congress and the merits of TEA participant applications relative to published criteria.

COTTONSEED OIL

Question: With the continued decline in exports of U.S. cottonseed oil as a result of heavily subsidized competition in traditional markets, why hasn't USDA utilized the Export Enhancement Program to maintain U.S. exports of cottonseed oil to countries which are historical users and importers of cottonseed oil? If there have been proposals to utilize EEP for cottonseed oil exports, have there been objections by agencies other than USDA during interagency committee consideration?

Answer: The Export Enhancement Program for vegetable oils was instituted to counter the unfair subsidies of the European Community. The markets targeted to counter EC subsidies were Morocco, Algeria, Tunisia, Turkey, and India. The major historical markets for U.S. cottonseed oil have been Mexico, Venezuela, and Egypt which have not been major markets for EC vegetable oils. Mexico and Venezuela have remained U.S. markets with the use of the GSM-102 Credit Guarantee Program. Under the EEP for vegetable oils, all vegetable oils produced in the United States were made available for the program. However, Turkey was the only country to purchase U.S. cottonseed oil which amounted to 13,500 metric tons in 1988. As all U.S. vegetable oils are eligible under the EEP, proposals for only one specific oil have never been made.

Question: Last year's Agriculture Appropriations bill included a provision mandating the use of $20,000,000 of Section 32 funds to purchase sunflower and cottonseed oil to facilitate additional sales of such oils in world markets. Why haven't regulations been issued to make cottonseed oil eligible for the program? Will regulations be issued in time for cottonseed oil to be eligible for the program prior to the next Egyptian tender? What other countries besides Egypt will be eligible to purchase cottonseed oil under this program?

Answer: A Notice was published in the Federal Register on April 21, 1989, announcing USDA's general guidelines for implementing the Sunflowerseed Oil Assistance Program--SOAP and the Cottonseed Oil Assistance Program--COAP. The Federal Register Notice will be followed by the issuance of announcements and invitations for bonus offers containing the terms and conditions of the SOAP or the COAP. It is our intention that these operational documents will be issued in the near future. The countries that will be eligible as target destinations for sunflowerseed or cottonseed oil under the program are currently under consideration.

Question: Public Law 480 allocations are usually announced in May - June when stocks of cottonseed oil are normally at a low point. Would it be possible to make the allocations earlier to allow crushers and producers to better benefit from the Public Law 480 sales of cottonseed oil when stocks are more adequate and prices more competitive?

Answer: The Public Law 480 country allocations are announced after the funding level has been determined by the Congressional appropriation process and signed into law by the President, generally at the beginning of the fiscal year. For example, we plan to announce the fiscal year 1990 allocations in October and provide quarterly updates throughout the year. As soon as country agreements for Title I are signed, sales and shipments begin and continue through the fiscal year.

Question: The GSM-102 credit guarantee program continues to be an important tool to facilitate export sales of cottonseed oil to key markets, such as Venezuela; do you anticipate any obstacles to obtaining adequate allocations of GSM-102 for FY 1990?

Answer: We plan to make available $5.0 billion of GSM-102 export credit guarantees during fiscal year 1990, and continue to believe this level will be sufficient to effectively carry out the program.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

Question: Mr. Kay, I would like to say to you that I believe you have done an admirable job at the Foreign Agricultural Service over the past several years. I realize that you have had considerable increase in programs to administer without additional funds or employees. I would like to state here that I support full funding for both the Targeted Export Assistance program and the Export Enhancement program. I read the GAO report on implementation of the TEA program. I also was briefed on the measures you have taken on correcting the shortcomings of the program. I believe that FAS did a good job in putting this program together and making it work in a short period of time. The Idahoans who benefit from the program would like to see it continue. So would I.

I am also concerned with the bilateral trade negotiations you mentioned in your statement. Please give me an update on your involvement in bilateral trade negotiations between the U.S. and Thailand and the U.S. and Korea.

Answer: In recent years we have held occasional bilateral meetings with Thailand to discuss market access for agricultural products, among other issues. These discussions most recently resulted in Thailand's agreeing to reduce import duties on wheat, apples, and soy protein. With respect to Korea, the U.S.-Korea Trade Subgroup ordinarily meets at least twice a year to discuss outstanding trade issues. These regular meetings have proven valuable in our efforts to secure improved market access for U.S. agricultural products in Korea.

Question: Are there any reported problems moving fresh potatoes into Korea under the new tariff schedules?

Answer: We were successful last year in opening Korea's market to frozen potatoes and frozen potato products. We are optimistic that Korea will prove to be an important new market for these products, particularly frozen french fries. U.S. exports of fresh potatoes to Korea remain negligible.

Question: What are the possibilities of moving more potato products into Thailand?

Answer: The situation we face in Thailand is one of extremely high import duties on potato products. We have discussed this issue with U.S. industry representatives who agree that Thailand offers promise as a market, provided the import duties are reduced to a more reasonable level. We intend to pursue this objective in future discussions with the Government of Thailand.

Question: What assistance can we in Congress give to you to push Korea to increase beef imports?

Answer: We have been pursuing the elimination of Korea's beef import restrictions through the dispute settlement mechanism of the General Agreement on Tariffs and Trade--GATT. The GATT panel which has been examining Korea's import restrictions is expected to issue its final recommendations shortly. It is our expectation that both sides will support the panel's findings and work in good faith to implement its recommendations. The Korean beef market was partially reopened to imports in July 1988 with the announcement of a 14,500 metric ton quota for the balance of the year. U.S. sales under that quota reached a record $24 million. For 1989, the Korean Government has announced a global import quota of 39,000 metric tons. In the first two months of 1989, U.S. sales of beef to Korea totaled $8.5 million.

SUBCOMMITTEE RECESS

Senator BURDICK. This concludes today's hearing. The subcommittee will next meet Wednesday, April 19, in room SD-124 at 2 p.m., and we will receive testimony from public witnesses.

So with that, the subcommittee stands in recess.

[Whereupon, at 11:57 a.m., Tuesday, April 18, the subcommittee was recessed, to reconvene at 2 p.m. Wednesday, April 19.]

MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE: The following agencies of the Department of Agriculture did not appear before the subcommittee this year. Chairman Burdick requested these agencies to submit testimony in support of their fiscal year 1990 budget request. Those statements follow:]

DEPARTMENT OF AGRICULTURE

AGRICULTURAL COOPERATIVE SERVICE

STATEMENT OF RANDALL E. TORGERSON, ADMINISTRATOR

Mr. Chairman and Members of the Committee, I appreciate the opportunity of appearing before you to present the budget of the Agricultural Cooperative Service. First, I would like to introduce my associates, Jack H. Armstrong, Deputy Administrator, Agricultural Cooperative Service; and Michael C. Gregoire, Acting Director of the Budget and Accounting Division, Animal and Plant Health Inspection Service.

The Agricultural Cooperative Service serves as the Department's focal point in providing research, technical assistance and education to farmer-owned cooperatives throughout the United States. ACS is a separate Agency to which the Secretary of Agriculture has delegated responsibilities of carrying out the functions directed by Congress in the Cooperative Marketing Act of 1926. The Agency also provides policy analysis on cooperative related issues for the Secretary.

AGENCY MISSIONS

The Agricultural Cooperative Service (ACS) helps farmers better manage the cooperatives they own and control and assists groups of farmers, fishermen, forest owners, and rural craft producers organize new cooperatives. ACS provides a program of cooperative research, technical assistance, and education to bring about more efficient and effective cooperative operations in support of family farm agriculture and rural communities. The Agency also serves as the focal point for the collection and dissemination of statistics on farmer cooperatives and analysis of policy issues affecting farmer cooperatives.

FARMER COOPERATIVES MAKING ADJUSTMENT

Farmer cooperatives made considerable progress in their adjustment to the significant changes occurring in agriculture and the impacts on the family farm. Cooperative business rose slightly in 1987 to $59.3 billion. The number of organizations (5,174) and overall membership (4.39 million) both continued their long downward trends. This is attributable to reorganizations, including mergers, consolidations, some going out of business, and to the long term decline in number of farms. Most cooperatives by reducing employment and disposing of unneeded and inefficient facilities now appear to be in stronger financial condition than in recent years.

RESEARCH, TECHNICAL ASSISTANCE AND EDUCATION

The Agricultural Cooperative Service completed research in a number of areas last year to help cooperatives better adjust to changing industry conditions. These included studies on financial instruments used by cooperatives, the role of cooperatives in tobacco marketing, the volume of imports by cooperatives, marketing and transportation of grain by cooperatives, assessing milk handler benefits, biotechnology and cooperatives, and market development through export promotion programs.

ACS was involved in 77 formal technical assistance projects in 1988, involving 103 cooperatives and producer groups in 27 states. A number of these involved marketing operations, cost analysis, merger studies, and marketing alternatives to traditional row crops. Twenty-seven projects involved emerging and developing cooperatives and producer groups representing more than 1,000 members.

The Agency plays an important role in providing education on cooperatives to both domestic clientele and foreign visitors. ACS educational publications are widely used, and our monthly magazine is viewed as a primary source of information for improved cooperative operations. We are conducting an increasing number of director and manager workshops for emerging cooperatives, and hosted 119 foreign visitors from 25 countries in 1988, briefing them on Department functions and policies, as well as aspects as U.S. farmer cooperatives.

EXPANDED RURAL DEVELOPMENT EFFORT

Congress, well aware of the vital role cooperatives are playing in the economic health of rural America, charged the Agency in our budget language for fiscal year 1989 to do even more in this area. The language states: "The committee will expect the Agricultural Cooperative Service to undertake a study of the potential for cooperatives to expand their role in rural development through the provision of services, financing, and economic development to improve the quality of life in rural America."

We are presently actively engaged in conducting this study. It is our hope it will provide a foundation for increased efforts by the Agency, as well as rural cooperatives themselves, to increase their already significant role in improving economic conditions in many rural areas. We will be working closely with other rural cooperative interests such as electric, finance, and service organizations to stimulate interest and develop ideas and guidelines for their individual or coordinated efforts.

BUDGET REQUEST

The fiscal year 1990 budget for the Agricultural Cooperative Service is $2,303,000, which is half the Agency's fiscal year 1989 level. To perform the Agency's activities during fiscal year 1990 we will have a staff year ceiling of 45. Our fiscal year 1990 budget proposes a decrease of $2,352,000 for Agency programs, including a decrease of $1,386,000 for research on agricultural cooperatives and a decrease of $966,000 for technical assistance to agricultural cooperatives.

To meet this goal and continue to serve farmer cooperatives, research funds would be allocated to only the highest priority projects having the greatest applicability to cooperatives as a whole. In addition, the Agency would sharply reduce its cooperative development activities including field operations by closing field offices in Hawaii, Kentucky, and North Carolina. We would continue to provide services to these areas from our Washington, D.C. office. We would also discontinue all cooperative research agreements at colleges and universities.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be glad to respond to any questions.

ECONOMIC RESEARCH SERVICE

STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR

Mr. Chairman and members of the committee, I am pleased to appear before you again to present our proposed budget for fiscal year 1990. I look forward to working with each of you and your staff throughout this session of Congress and hope that you will continue to rely on ERS as a source of objective economic information on what is happening in American agriculture and rural communities and on the benefits and costs of alternative policies and programs to address the needs of agriculture and rural America.

BACKGROUND ON BUDGET REQUEST

U.S. agriculture and rural America have undergone massive adjustments over the past decade in response to changes in the production and marketing of farm products both at home and abroad and in the financial and policy environments. National and international commodity and financial markets are more competitive and have a more significant impact on U.S. agriculture than ever before. Thus, no part of the U.S. food and fiber system or those sectors that depend on it has been left untouched by these changes. More specifically:

Agriculture is now, more than ever, affected by U.S. and foreign monetary, fiscal, and trade policies.

The competitive position of U.S. agriculture is being challenged on many fronts.

The structure and performance of the domestic and export marketing system for farm commodities and the wholesale/retail food and fiber distribution system have changed dramatically.

Farming is now inextricably linked to industries that supply inputs and move products from the farm gate to the final consumer.

Agriculture is now confronted with significant costs of and adjustments to environmental regulations.

Farming is now highly capital intensive and therefore affected by the volatility of capital markets.

These changes occurring in agriculture and the general economy have also affected rural America and resource use. Technological changes, global shifts in industrial activity, financial stress, unemployment, regulatory policies, asset depreciation, and attendant dislocation are forcing major adjustments in rural households and businesses.

The demands placed on the Economic Research Service for analysis have increased exponentially with these adjustments, while our inflation-adjusted resource base has decreased. In fiscal year 1988, for example, staff analyses for policymakers (311) and responses to private-sector inquiries (82,010) were more than double what they were in fiscal year 1981 (the first year for which we have comparable data), 122 and 36,305, respectively, but resources were 20 percent less (after adjusting for inflation). ERS had over 1,200 employees in fiscal year 1968 (the peak between 1961, when ERS was first established, and the present); it now has fewer than 800. The total funds available to ERS in fiscal year 1968 (in 1989 dollars) amounted to $73 million; our fiscal year 1989 budget is $49 million in direct appropriations, and we may receive up to $2 million in other funds for a total of $51 million.

We have reorganized and made major shifts to address our reduced resource base to the new problems and issues that have arisen. We have invested in modern computer systems to increase the efficiency of our analysts. Lower priority projects and programs have been eliminated. Yet the increasing number of new and emerging areas of analysis leaves ERS without sufficient resources to meet the analytical needs of policymakers and the private sector without sacrificing some of the underlying research and analytical work that provides necessary background knowledge and data to address future high priority and mandated programs. While ERS will continue to redirect resources to critical, high priority areas, development and maintenance of adequate data and analytical capability to adequately address emerging future needs is a major challenge.

FISCAL YEAR 1990 BUDGET ESTIMATE

To adequately address these and other emerging issues, additional resources are needed to fill critical data and information gaps and to enhance analytical capacity. With the present budget request for fiscal year 1990, we are hoping to begin a long-term effort to rebuild and enhance our core data, information, and analysis programs in agricultural resources and regulatory policy, agricultural commodities, global agriculture and trade, and the rural economy.

Major program objectives incorporated into this rebuilding program include: (1) collect and analyze pesticide and chemical use data to fulfill your mandate to provide analysis of decisions affecting agriculture pending before EPA, including the implications for farmers and for water quality; (2) enhance our basic program of commodity analysis, including analysis of the structure and performance of domestic commodity and food markets; (3) enhance our basic program of trade analysis, competitiveness, and export market potential via improved information and data systems, including a harmonized trade data base to monitor trade in both basic and high-value products. An additional area for potential consideration would be to conduct pilot surveys and analysis of the linkages between the agricultural and general economies and the rural economy and analyze the dynamics of farm and commodity adjustments on rural development.

Our fiscal year 1990 budget contains a proposed increase for first of these priority areas: $2 million for pesticide and chemical use data and $450,000 for water quality impact analysis. These activities would be part of an interagency water quality initiative focused on agricultural pollution of ground water. Besides nine USDA agencies—APHIS, ARS, ASCS, CSRS, FS, ERS, ES, NAL, and SCS—this initiative involves the Department of Commerce (NOAA) EPA, and the Department of the Interior (USGS)

In addition to the proposed increase, ERS will continue to redirect available resources to further pursue the priority areas to the extent possible.

PESTICIDE AND CHEMICAL USE DATA

Our part of the interagency ground water initiative would be to expand our current data collection efforts to include pesticide use on major field crops, livestock, fruits, vegetables, and other specialty crops in all States on a periodic basis (data of State-level significance would be provided; States and other local government agencies may fund detailed sub-State samples)

Also, we would assess the contribution of pesticides to agricultural productivity, profitability, and product quality; estimate the impacts of pesticide regulations on farmers, rural communities, input and product markets, consumers, and international competitiveness in agricultural trade; evaluate "low-input" agricultural systems, their potential to improve ground water quality, and their impacts on agricultural productivity; and, in cooperation with other agencies, determine the role of agricultural pesticides in ground water contamination, farmer responses to alternative regulatory policies, and implications of policies for rural ground water supplies.

WATER QUALITY IMPACT ANALYSIS

This project would involve economic analysis of water quality policies and programs and benefit-cost analysis relating to USDA's "Targeted Research and Education Programs," under which USDA would: initiate research and education efforts in the Corn Belt (aimed at (1) developing and transferring to farmers cost-effective farm management practices, (2) better understanding the fate of agricultural chemicals in soils and ground water, and (3) developing improved ground water sampling methodologies); and demonstrate cost-effective technologies and farm practices in eight sites affected by nonpoint source agricultural chemical pollution of ground water in major production areas.

CONCLUSION

Mr. Chairman, ERS has been called on to address a growing number of increasingly more complex issues of significance to you, our national policymakers. Your continued support of a relatively small investment in good, objective economic analysis of public policies is needed, given the potentially enormous economic ramifications of national agricultural and rural policies and programs.

In addition to policy-oriented research, however, a large part of our resources are devoted to producing the basic economic intelligence needed by U.S. agricultural industries for their production, marketing, and investment decisions.

For example, last year you asked us and our sister agency, NASS, to launch an ongoing program of data collection, analysis of the current situation, and forecasts of the outlook for the aquaculture industry—one of the fastest growing segments of the U.S. food industry. We do similar data collection and analysis and publish reports and newsletters for other U.S. agricultural industries, including cotton and wool, dairy, feed, fruit and tree nuts, livestock and poultry, oil crops, rice, sugar and sweeteners, tobacco, vegetables and specialties, wheat, and inputs. The entire agricultural industry also depends on ERS for a wide range of economic and statistical indicators that are essential to both private and public decisionmaking.

Again, this is merely an example of what we do and not an attempt to enumerate all our functions and activities. A more complete description of our current activities is contained in the green pages of the "Explanatory Notes" that you have before you, along with selected accomplishments in fiscal year 1988.

Let me conclude by saying that we appreciate your past support of our efforts and look forward to continuing to serve you and the American public.

Thank you, and I will be happy to respond to your questions.

FEDERAL GRAIN INSPECTION SERVICE

STATEMENT OF W. KIRK MILLER, ADMINISTRATOR

Mr. Chairman and Members of the Committee: We appreciate the opportunity to present the Federal Grain Inspection Service (FGIS) budget for fiscal year 1990.

In addition to our specific budget request, this presentation includes information about the Agency's mission, program activities, and supporting data.

Our total budget request for fiscal year 1990 is $45.1 million. This compares to $44.9 million for fiscal year 1989. Pay cost increases and inflation will be absorbed and covered through cost reduction efforts and improved management activities. Inspection and weighing activities, which are funded by user fees, represent $36.9 million of the total. The remaining $8.2 million is from appropriations to support programs involving standardization, compliance, international monitoring, Advisory Committee activities, and implementation of programs under the provisions of the Grain Quality Improvement Act (CQIA) of 1986.

New funding is requested to continue implementation of the Grain Quality Improvement Act including the following initiatives: establish and maintain an effective quality control program for new end use quality tests to ensure accurate and uniform inspections; evaluate the impact on elevator safety and grain quality if existing dust circulation systems are prohibited from operating until retrofitted to permanently remove dust from grain; and improve agency productivity and responsiveness through automation of the Grain Inspection Monitoring System. (This information system documents the results of official inspections.)

The President's budget for fiscal year 1990 included an increase of $140,000 which will be used to support these initiatives. Other than pay costs, there are no significant increases in operating costs projected.

The operating budget for inspection and weighing activities is funded by user fees through a revolving fund. User fees constituted 82 percent of the total budget in fiscal year 1988. Operating revenues from user fees were $34.5 million; obligations were $31.3 million, yielding a positive operating margin of $3.2 million.

Public Law 100-518, enacted October 24, 1988, extended through September 30, 1993, the authority contained in section 155 of the Omnibus Budget Reconciliation Act of 1981 and Public Law 98-469 to charge and collect Inspection and weighing fees including administrative and supervisory costs; extended the authority to Invest user fees in interest-bearing accounts or United States Government debt instruments; authorized appropriations for standardization, compliance, and international monitoring activities; and expanded the industry advisory committee to 15 members. This bill requires the Agency to conduct a study on the effects of combining dockage with foreign material as a single grading factor for wheat.

A new mission statement for FGIS has been adopted. It reads: The mission of FGIS is to facilitate the marketing of grain, oilseeds, pulses, rice, and related commodities by establishing descriptive standards and terms; accurately and consistently certifying quality; providing for uniform official inspection and weighing; carrying out assigned regulatory and service responsibilities; and, providing the framework for commodity quality improvement incentives to both domestic and foreign buyers.

The official inspection system encompasses about 5,092 employees. Of this total, 884 are FGIS employees and 4,208 are non-Federal personnel employed by private agencies and States designated or delegated and licensed by FGIS to provide inspection and weighing services.

Direct on line inspection and weighing of grain at 60 export elevators is provided by 534 FGIS full- and part-time employees. Eight delegated states employ approximately 2,084 employees and provide mandatory official services at an additional 27 export elevators. Under direct FGIS oversight, the remaining 2,124 employees, employed by designated agencies, provide permissive inspection and weighing services.

PROGRAM

In fiscal year 1988, FGIS inspected 115.6 million metric tons of export grain. This compares to 98.1 million metric tons in fiscal 1987. Export volume remains at a high level, while operational costs remain relatively constant. The continued activity in exports is an incentive for: improving the quality of grain handling through the development of new and more effective standards; improving timeliness and accuracy in grading and weighing through new technology; and, increasing productivity through effective management practices.

FGIS directed programs in fiscal year 1988 to improve the quality of grain through specific initiatives. These initiatives included: evaluated and tested methodologies in search of new end-use quality criteria for inclusion in the national grain standards; improved the official inspection system by establishing a centralized quality control program; improved the quality of inspection results through increased training and supervision; incorporated the National Institute of Standards and Technology scales specification and performance requirements into the U.S. Grain Standards Act regulations; equipped six field offices with aflatoxin testing capability to analyze corn samples; continued work on development of an objective testing method for wheat classification to replace, or at least supplement, the current subjective visual classification system; continued work on modifications of the

Uniform Shiplot and Combined Lot Inspection Plan; and, revised regulations under the Agricultural Marketing Act of 1946 for the inspection of processed commodities.

The FGIS Advisory Committee, established under the USGSA, to advise the Administrator on matters pertaining to the efficient and economical implementation of the Act was active in fiscal year 1988. Major issues addressed by the Committee were: implementation of the Grain Quality Improvement Act of 1986, uniform loading plans, wheat protein, deceptive practices, sorghum damage and odor, wheat classification, protein and oil in soybeans, quality control programs, the FGIS mission statement, and the FGIS financial position.

The drought in 1988 caused shriveled and wrinkled seedcoat conditions in some mature soybeans. While the oil, protein, and free fatty acid levels of such soybeans appeared to be normal, the soybeans were difficult to process because the seedcoat could not be readily removed. In response to industry concerns FGIS developed a grading guideline for stating the percentage of shriveled and wrinkled soybeans on certificates.

FGIS also initiated action to improve employee performance and Job satisfaction through quality of work life surveys, individual development plans, and training.

Research and development activities include contracts with research institutes and universities, and research conducted by the Agricultural Research Service. FGIS plans to continue to seek opportunities for technology transfer where possible.

EQUAL EMPLOYMENT OPPORTUNITIES

FGIS is aggressively pursuing actions to assure implementation of its Affirmative Action Plan. Vacancy announcements are being sent to historically black colleges and universities, and to predominately Hispanic schools, colleges, and universities.

A Missed Opportunities Program is being implemented to review and analyze the opportunities available to FGIS managers and supervisors to select from under-represented groups in filling vacant positions. Information gained will be used to identify problems in selection criteria, position standards, qualifying factors, advertising, and recruiting procedures.

The Quality Assurance and Research Division in Kansas City extended their contract for wheat classification technical services with a vocational service organization which employs and trains the handicapped. In addition, FCIS contracts with small business 8(a), minority-owned firms for automated data processing services. We have established an EEO Working Group designed to promote women, minority, and disabled employees. FGIS is committed to being a nondiscriminatory employer.

SAFETY

The Agency administers an effective safety and health program encompassing the related functional areas of industrial safety, industrial hygiene, employee health and wellness, employee assistance and counseling, traffic safety, and workers compensation. In the past year, special emphasis programs including "Just Say No" (to drugs) and "Stop—Think Safety" were implemented. We believe that special emphasis programs such as these lead to the decline in the number of explosions, personal injuries, and deaths.

In support of President Reagan's program of reducing accidents by 3 percent per year, the Agency established, and met a self-imposed goal of a 6 percent reduction in lost-time accidents for fiscal year 1987–88.

During fiscal year 1988 there were 11 dust explosions in grain handling facilities reported to FGIS resulting in 11 personal injuries and eight deaths. This compares to 18 explosions resulting in 15 personal injuries and no deaths in fiscal year 1987. No Federal employees were involved in the explosions either year.

SELECTED INITIATIVES

The Agency believes that its efforts continue to be responsive to the challenge of improving grain quality. Examples of these efforts are as follows: studying the effects of separating the grading factor Broken Kernels and Foreign Material into two factors in the standards for sorghum; accelerating efforts to evaluate and approve a rapid test for aflatoxin; and, amending the regulations to provide for reporting soybean oil and protein results on official inspection certificates.

User fees.—Increased exports generated positive user fee revenue in fiscal year 1988. In fiscal years 1987 and 1988 costs exceeded revenues in Canada, therefore, effective June 10, 1988, FGIS increased its Canadian fees. This increase covers, as nearly as practical, the FGIS costs of providing inspection services for U.S. grain in Canada. No other fee increases were implemented in 1988.

Foreign Complaints.—Foreign complaints declined significantly in fiscal year 1988. We believe wheat protein complaints, the number one source of foreign complaints in 1987, declined because of changes, including direct monitoring by FGIS inspection points and the development of new national reference samples for standardizing the equipment. Several procedural improvements, including an improved quality control program, were adopted and new updated calibrations were also implemented.

Research Activities.—FGIS programs are designed to bring more objective and reliable methodologies to the official inspection system and has committed resources to evaluating a single kernel moisture tester. Resources are also committed to evaluate the sensitivity of grains and oilseeds to grinder variations. Further, FGIS is pursuing an applied research program to adopt new analytical technologies from other industries such as image analysis, odor determination, and artificial intelligence systems.

CLOSING

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have.

OFFICE OF THE GENERAL COUNSEL

STATEMENT OF CHRISTOPHER HICKS, GENERAL COUNSEL

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear this morning to discuss with you the fiscal year 1990 appropriation request of the Office of the General Counsel of the United States Department of Agriculture.

FUNCTION AND ORGANIZATION

The Office of the General Counsel provides the full spectrum of legal counsel and services for the Secretary of Agriculture regarding all programs, operations and activities of the Department of Agriculture. These services include: rendering legal opinions; preparing or reviewing rules and regulations; drafting and reviewing proposed legislation; preparing or interpreting contracts, mortgages, leases, deeds and other documents; preparing briefs and representing the Department in judicial proceedings and litigation; representing departmental agencies in nonlitigation debt collection programs; processing applications for patents for inventions by the Department's employees; representing departmental agencies in state water rights adjudications; considering and determining claims by and against the United States arising out of the Department's activities; representing the Department in formal and informal administrative proceedings; assisting the Department of Justice (DOJ) in the preparation and trial of cases involving the Department; representing the Secretary of Agriculture and the Commodity Credit Corporation before the Interstate Commerce Commission, the Federal Maritime Commission, and the International Trade Commission; providing legal advice on equal employment opportunity, personnel, freedom of information and privacy act matters; and providing legal advice to the Secretary regarding his participation on the Farm Credit System Assistance Board.

We employ 241 attorneys and 144 support staff in Washington, D.C. and 22 field offices across the United States. Fifty-three percent of our staff is located in the field.

FISCAL YEAR 1990 BUDGET REQUEST

For fiscal year 1990, we have requested $22,340,000 in direct appropriations. The increase of $1,504,000 will be used to complete our office automation system that was partially funded this fiscal year.

Approximately 70 percent of the requested increase—one million dollars—is a one-time, one-year increase for acquisition of hardware and software. The remaining $0.5 million is a permanent increase for operation and maintenance of the system.

GROWTH OF WORKLOAD

Before turning to the specifics of our budget request I would like to take a few moments to discuss our workload situation.

The sheer number of legal matters, particularly cases, referred to this Office has increased 350 percent over the last ten years. At the same time, our major resource—our people—has increased only 12 percent. I have mentioned this in previous testimony, but I think it's important to mention again. At the end of fiscal year 1979, we were responsible for over 10,000 cases. By the end of fiscal year 1984, the caseload had grown to 39,000. Currently the number is 45,000.

During the same period, our authorized staffing level grew from 343 in fiscal year 1979 to our current level of 385. Although this has been our authorized strength since fiscal year 1984, our budget was inadequate to fund that level until now. Over the past two years, we have attempted to increase staffing to 385. Our on-board strength of 337 two years ago rose to 342 by the end of last year. Currently we have 364 on-board and are recruiting for the remaining 21 positions.

Even operating at the 385 level, I expect that the strain on our staff will continue. Unlike attorneys in private practice who can pick and choose their clients in order to manage their workload, government lawyers can not decline to represent their client agencies. Our society continues to be litigious, the Department's programs continue to evolve, and the Department of Justice continues to require a heavier involvement from us, all of which mean that the demand for our legal services will continue to grow.

Our challenge has been—and will continue to be—how to deal with this exploding caseload in a time of necessary fiscal concerns and budgetary restraints. One answer is to increase our efficiency through the use of computer technology—office automation.

OFFICE AUTOMATION

With the help of this Committee, we have begun to procure and install an integrated office automation system. Our plan, incorporated into the fiscal year 1989 and 1990 budget requests, is to acquire a system of IBM compatible personal computers available to each employee in Washington and the 22 field offices. These personal computers will be linked together in Washington through the Department's existing local area network and through local area networks to be installed in each field office. The system will also consist of a minicomputer accessible by all employees which will contain office-wide records and an archive of significant documents.

The system, when finished, will provide faster word processing, electronic sharing of documents, recordkeeping, increased access to computerized legal research, and telecommunications among our 23 offices and between our offices and our client agencies and outside agencies such as the Department of Justice. Other than word processing and a rudimentary electronic mail system, OGC has none of these capabilities presently. With them, productivity and quality of work will increase within our authorized staffing level.

The need for the system was justified in detail in the fiscal year 1989 budget submission. The question that now arises is whether or not we complete the system in fiscal year 1990 or should we spread the purchase out over several years. The budget, as presented, proposes to complete the entire system in fiscal year 1990.

NEED FOR FISCAL YEAR 1990 INCREASE

The reason for seeking to complete the acquisition of the office automation system in as short a time as possible is primarily because it is more cost effective—it is far cheaper in the long run to complete the system in one year than to procure it in a piecemeal fashion over several years. In addition, the sooner the system is complete, the sooner we will realize the benefits of the system—increased productivity and holding the line on additional staff. The equipment, if purchased over several years will have some use—primarily word processing—but it will not be used to its maximum benefit until the office-wide system is completed at the end of the procurement process.

In summary, the longer we wait, the longer we delay the full effectiveness of the system.

RESTRUCTURING OF FIELD OFFICES

Before closing I'd like to mention one matter that is not directly budget related, but like the office automation system, is another attempt to increase our productivity within existing human resources. Last year we notified the Committee that we had received approval from the Department, the Office of Management and Budget, and the Office of Personnel Management to restructure our field offices. The previous OGC structure consisted of sixteen of the larger field offices reporting directly to Washington, and six smaller offices—formerly referred to as FmHA pilot offices—that reported to some of the larger offices. The new structure consists of five OGC regions, each headed by a Regional Attorney in the Senior Executive Service, to be headquartered in Atlanta, Georgia; Denver, Colorado; Harrisburg, Pennsylvania; Kansas City, Missouri; and San Francisco, California. The remaining 17 field offices will each report to one of the regional offices. Ninety-six percent of our civil litigation cases are the responsibility of the field. By neither closing existing field offices nor opening new ones, but instead, by streamlining the reporting relationships and adding senior management in the field, we think the restructuring will enable us to handle our workload more effectively by allocating our resources in the field more efficiently.

That concludes my statement, Mr. Chairman. We appreciate the support this Committee has given us in the past. I'll be happy to answer any questions you and the Committee members may have.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

STATEMENT OF WILMER D. MIZELL, ASSISTANT SECRETARY

Mr. Chairman and members of the Subcommittee, I am pleased to discuss the fiscal year 1990 budget request for the Office of Governmental and Public Affairs.

As you know, OGPA is responsible for communicating departmental policy and program information to Congress, the public, and State and local governments. This responsibility makes this Office the communication core of the Department of Agriculture. We also provide leadership for the Take Pride in America project and the Native American Liaison office.

USDA agencies made 25 percent more information available to users of a computerized information dissemination system administered by OGPA in fiscal year 1988 than the previous year, at an increase in cost of only 7 percent. Meanwhile, access of USDA information through the system by public users, land grant universities and other government agencies has also substantially increased from last year.

In order to emphasize the role of agriculture in the building of our Nation since the signing and ratification of the U.S. Constitution 200 years ago, OGPA initiated a program to identify farms that have remained in the same family for the past 200 years. So far we have recognized a total of 590 families, almost all of whom, are located in the territory that made up the original 13 colonies. Positive public and media attention focused on agriculture as a result of the national kick-off and subsequent State ceremonies recognizing these families.

We have also reviewed our Radio and TV production area to seek ways to streamline our operation. We have reviewed our current TV programs and have made changes which will allow us to better utilize our resources, and at the same time provide more timely and pertinent information resulting in an increase in our viewing audience. We are continually evaluating our programs particularly in the area of reaching minority groups with USDA information.

During the last year, we have made considerable achievements with the liaison activities for Native Americans through development of interdepartmental and interagency agreements which are resulting in increased coordination in program delivery.

FISCAL YEAR 1990 BUDGET REQUEST

The fiscal year 1990 budget request is $9,068,000, an increase of $209,000 over the fiscal year 1989 appropriation. The increase includes $91,000 for Congressional Relations activities and $118,000 for Public Affairs.

In fiscal year 1990, Congress is expected to consider a new Farm Bill. The additional staffing for OGPA will insure that we can respond promptly and effectively to the Congress and the public on a variety of issues. This will be particularly important in the area of Congressional Relations where we will need to adequately respond to the significant demands of testimony clearance and to Congressional members' requests for information.

In the Public Affairs area, we are requesting $75,000 for replacement of outmoded ADP technology. The new equipment will link all divisions in the Office of Information with a network that will provide internal access to files and data bases. The network would be hardwired, allowing instantaneous, fully secure sharing of information between divisions. With this network, OGPA would be able to:

1. Communicate agricultural information among divisions which is unedited, uncleared, and market sensitive in a secure manner.

2. Respond efficiently, accurately, and quickly to the thousands of inquiries received annually from the public and the media by setting up a data base containing information on the Department's programs, activities, findings and regulations, and

3. Interface with the Department's Electronic Dissemination of Information system to imput all press releases and reports in a timely manner.

As a result, we will be able to provide better service to USDA agencies and the public.

Our final request is $43,000 for increased printing and production costs associated with the Yearbook of Agriculture. The Government Printing Office anticipates a substantial increase in the cost of paper. This and other production cost increases will translate into increased costs for publishing the Yearbook of Agriculture.

This concludes my statement, Mr. Chairman. I will be happy to respond to questions.

OFFICE OF INSPECTOR GENERAL

STATEMENT OF LEON SNEAD, ACTING INSPECTOR GENERAL

Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you today. In representing the Office of Inspector General (OIG) I would like to take this occasion to provide you with our perspective on some of the major programs and activities of the U. S. Department of Agriculture (USDA). With your permission, I would like to submit my testimony for the record, and present some highlights to you today.

GENERAL COMMENTS

This year we plan to continue our strategic approach in reviewing the Department's programs. In the audit area, we will place special emphasis on entitlement programs, consumer protection, farm programs, loans and financial management. Our investigative activities will center on public health and safety, employee integrity, and fraud in the Department's loan and benefit programs.

This approach has worked well for us and for the Department. In fiscal year 1988, our audits identified $61 million in monetary results where management made commitments to seek recovery of funds, or to use funds more efficiently. Our investigations resulted in an additional $85 million in recoveries, collections, fines, and administrative penalties. These direct returns were nearly three times OIG's operating costs; we consider this to be an excellent return on the taxpayer's investment. Our investigative efforts also resulted in 716 indictments and 646 convictions. During the year we issued a total of 619 audit reports and 1,451 investigative reports.

Let me discuss some of our specific efforts in the Department's programs.

ENTITLEMENT PROGRAMS

The Food and Nutrition Service (FNS) administers the Food Stamp Program, the Child Nutrition Program, and the Supplemental Food Program for Women, Infants and Children (WIC), which together will be funded at a level of approximately $19.5 billion in fiscal year 1989.

Our strategy in this area is to focus on the adequacy of controls and systems used to manage the programs, and to maintain a coordinated enforcement program with other Federal, State and local agencies.

Food Stamp Program.—In recent years, progress has been made to reduce certification error rates in the Food Stamp Program, and to ensure that only eligible food items are purchased with food stamps. In 1980, the error rate in food stamp issuance stood at about 9.5 percent. The most recent quality control tests show that the national error rate stands at about 7.5 percent, with some States doing better than that. Major retail chains, which make up about 15 percent of the total retailers authorized to accept food stamps, handle about 74 percent of all redeemed food stamps. Our studies show that in most cases food stamps are being used to buy eligible items when redeemed at these larger chain stores because of the controls they have instituted. The remaining volume (about 26 percent) of food stamps are handled by small- to medium-sized stores, and most cases of misuse of food stamps are found in these establishments. We have, therefore, recommended that FNS concentrate its efforts at this level.

A major part of our investigative strategy in the Food Stamp Program during the past year was an effort code-named "Project Wipeout." This initiative, begun in April 1987, was an intensive, coordinated effort between our office and the Department of Justice. As of December 31, 1988, 618 indictments and 433 convictions had been obtained. The subjects of these cases included food stamp recipients, Food Stamp Program employees at the Federal and State levels, retail grocery stores authorized to redeem food stamps, and unauthorized program participants. Numerous United States Attorneys, State and local prosecutors, and law enforcement agencies contributed substantially to the success of this nationwide effort.

With the conclusion of the investigative stage of "Project Wipeout," we now plan to focus computer matching operations on large urban population centers to identify illegal food stamp recipients. The matching is being conducted to identify Federal employees participating in the Food Stamp Program who have not properly reported wages. We are also performing cross-State matches in selected areas to identify recipients who are crossing State lines to work but are not properly reporting wages. These matching efforts are in addition to State requirements. We know computer matches are productive; in a recent effort in the Chicago, Illinois, and Gary, Indiana, metropolitan areas, 28 people, including 10 Federal employees were convicted of illegally receiving food stamps or public assistance totaling about $500,000.

WIC Program.—At last year's hearings, we discussed an audit initiative in the WIC Program which grew out of major cases of fraud found in Los Angeles and New York City. This audit has been completed. It was conducted in seven States that received approximately $313 million, or 20 percent, of the program funds available in fiscal year 1986. The audit found that 82 of the 107 retailers sampled (76 percent) inflated WIC vouchers by an average of 28.5 percent over the actual price of food purchased. These vendors were primarily independent stores located in major metropolitan areas. Thirty of the 82 vendors were referred to the Department of Justice for criminal or civil action. Legal action on these cases is now pending. The remaining 52 cases were referred to State agencies for administrative actions.

In our audit, we recommended to FNS that it: (1) design more effective systems to identify high risk vendors; (2) improve reconciliation efforts; and (3) strengthen accountability and control over food instruments at the State and local level. FNS agreed with our recommendations and has initiated corrective action.

CONSUMER PROTECTION

Imported Meat Inspection.—We recently completed a follow-up audit to the work we performed in 1986 on the inspection process for imported meat and poultry products. As part of our audit, we reviewed the inspection systems of five countries which collectively account for approximately 85 percent of all imports of meat and poultry products into the United States. Two of the five countries we visited did not have residue testing programs that fully met U.S. requirements. We also noted that animal drugs not approved for use in the U.S. were approved for use in four of the five countries and were not included in their residue testing plans. A contributing factor for this is that the Food Safety Inspection Service (FSIS) certified countries to export to the U.S. without obtaining and evaluating needed information on chemical and residue testing programs in those countries. We also found continuing coordination problems between FSIS and the U.S. Customs Service. Importers are allowed to ship meat and poultry products throughout the U.S. under U.S. Customs bond without the knowledge of FSIS. We have made recommendations to FSIS in each of these areas.

Pesticide Residues.—During this past year, we completed an audit to evaluate the effectiveness of controls used by FSIS to detect and prevent prohibited pesticide residues in domestic meat and poultry products. The audit found that FSIS was not always able to identify responsible producers when pesticide violations were found; that effective controls had not been established for the Verified Production Control Program (a voluntary in-plant pesticide testing program); that sampling for residue testing was not random; that compound rankings (to assess risk) under the compound evaluation system were not timely; and that field laboratories did not always complete chemical analyses in a timely manner.

We recommended that FSIS publish regulations establishing operating procedures to ensure that field inspectors monitor plant compliance with the agreements established, and standardizing the provisions of the agreements with participating companies in the Verified Production Control Program. We also recommended that FSIS: (1) reemphasize to inspectors the need to follow procedures regarding the selection of samples, and monitor inspector compliance with these procedures; (2) commit necessary resources to timely evaluate compounds that could present health hazards in meat and poultry products; and (3) strengthen procedures at laboratories to ensure the timely analysis of sample animal tissues. FSIS is in the process of taking corrective actions in these areas. In addition, we are continuing to work with the agency to address the issue of obtaining the needed authority that would enable them to identify the producers of all animals presented for slaughter.

FARM PROGRAMS

Disaster Assistance Act of 1988.—The Disaster Assistance Act of 1988 authorized the Agricultural Stabilization and Conservation Service (ASCS) to provide financial assistance to farmers who lost their crops as a result of the 1988 drought. The Act also required that farmers with severe losses obtain crop insurance from the Federal Crop Insurance Corporation (FCIC) to better protect them from future losses. Finally, the Act expanded the role of the Farmers Home Administration (FmHA) in providing emergency and disaster loans to farmers and rural businesses.

We are reviewing the Department's implementation of the Disaster Assistance Act of 1988 to evaluate its efficiency and effectiveness, and to ensure that effective coordination exists between the appropriate USDA agencies.

Our early monitoring efforts in ASCS have already identified several areas that need strengthening. We recommended that ASCS: (1) establish separate crop "yield" and "price" data for "fresh market" and "processed" foods; (2) coordinate with FCIC to develop a system to identify producers who are insured and who are also applying to ASCS for disaster payments; (3) establish two separate county average yields for soybeans to take into account "double cropping" of soybeans in southern States; and (4) ensure that loss assistance provided to producers of hybrid seed corn and grain sorghum is based on price and yield data established specifically for these crops. ASCS officials agreed with our analysis and corrective actions are in process. We believe that savings of approximately $113 million can be derived from these changes without denying farmers any benefits legally due them.

As stated earlier, the Act expanded and revised FmHA's authorities in providing emergency and disaster loan assistance. First, the Act waived the requirement of crop insurance as a prerequisite to obtaining emergency loan assistance for crops planted for harvest in 1988. As a result, demand for FmHA's emergency loans is expected to be much higher than originally forecast. Also, the Act provided $200 million in loan assistance to rural businesses that suffered reduced sales as a result of the drought. We plan to initiate audit work in early 1989 on FmHA's overall implementation of the Act and the processing and approval of disaster loan applications.

Production Adjustment Programs.—Under provisions of the production adjustment program for the 1987 through 1990 crop years, total program payments to any one individual or entity are not to exceed $50,000 per year. We have undertaken reviews of compliance with existing payment limitation rules, based on requests from ASCS and other sources. We found that payments have exceeded the $50,000 limitation because some producers reorganized their operations to create additional farming entities, some of which did not meet the specified criteria. Audits conducted in 1986 showed that improper or unjustified payments totaling about $15.7 million were made in 1981 through 1986. We also determined that improper or questionable farm entity or "person" determinations were made by ASCS, resulting in questionable payments.

The Omnibus Budget Reconciliation Act of 1987 made significant changes to the payment limitation rules by: (1) requiring that participants be actively engaged in farming; (2) restricting the number of farm entities from which an individual can receive payment; and (3) requiring that foreign individuals and entities must provide personal labor in the production of crops before they can receive payments. In response to these legislative changes and our audit recommendations, new rules were issued by ASCS in August 1988. ASCS is redetermining whether all participants in the program meet the payment limitation requirements. We believe the new legislation significantly strengthens the payment limitation provisions.

Currently, we have a major effort underway to evaluate the implementation of the 1989 payment limitation provisions. We plan on providing ASCS with early feedback on the success of the implementation of the program provisions.

CCC Commodity Certificates.—Since 1986, we have been monitoring the procurement, issuance, redemption, security and internal controls related to commodity certificates issued by the Commodity Credit Corporation (CCC). Although ASCS has made significant improvements in safeguards over printing, issuing, controlling and accounting for the certificates, a backlog persists in the number of redeemed certificates which have not been reconciled to issuance records. OIG initially reported this condition in February 1987.

As of November 30, 1988, there were 144,000 unreconciled certificates. In response to OIG's continuing concerns and recent recommendations of the General Accounting Office, CCC has recently implemented a plan outlining the methods it is using to ensure timely resolution of unreconciled items and reduction of the present backlog. We are monitoring this action. As of January 31, 1989, CCC has issued 22.8 million certificates valued at $23.5 billion. ASCS estimates that 1.1 million certificates valued at $421 million have not yet been redeemed. ASCS's reconciliation process has identified 121,000 unmatched items. To date, we have not found any cases of fraud.

LOANS

Guaranteed Loans.—The Food Security Act of 1985 mandated that farmer program loans be shifted from direct to guaranteed loans. One of our recent audits revealed that FmHA was not successful in committing guaranteed loan funds, nor in shifting direct borrowers to guaranteed loans. As a result, only about 57 percent ($1.2 billion) of the nearly $2.2 billion authorized by Congress for guaranteed loan funding in fiscal year 1987 were committed. Further, we found that only one of the 234 randomly selected loans reviewed had been shifted from the direct loan program to the guaranteed loan program. In our opinion, FmHA has not achieved the objective of reducing Federal outlays and risk of loss by sharing it with the private sector. Further, because funding for direct loans has decreased in recent years, there will be a shortfall in direct loan funding unless FmHA successfully redirects current borrowers to the guaranteed loan program.

We also found that FmHA approved most guarantees with lenders at the maximum rate of 90 percent. (The average guarantee percentage approved by FmHA as of the end of fiscal year 1987 was 87 percent.) We recommended that FmHA negotiate guarantees with lenders based upon the risk exposure (debt repayment capability of the loan applicants). FmHA has published a final rule stipulating that the percentages of guarantee must be negotiated. According to a FmHA study, each percentage point reduction in the guarantee rate results in a reduction in risk of $10 million on each $1 billion of guaranteed loan obligations.

We also noted that Office of Management and Budget (0MB) debt collection requirements (OMB Circular A-129) were not met for farmer guaranteed loans. There were no policies and procedures requiring FmHA to collect debts remaining after liquidation of loan security when borrowers defaulted on guaranteed loans. FmHA considered the defaulted loan satisfied when it settled the guarantee with the lending institution. Therefore, no attempts were made to collect $140.1 million in guaranteed loan losses during fiscal years 1986 and 1987. Further, since these defaults had not been classified as debts, individuals were able to obtain direct loans from FmHA after defaulting on a guaranteed loan.

Credit Management.—As part of "Reform 88," 0MB established a Nine Point Credit Management Program to improve debt collection, reduce delinquencies, and improve management of receivables. We reviewed FmHA's implementation of this program. Our review disclosed that, while FmHA has made progress toward improving its debt collection program, it remains in substantial noncompliance. The most significant aspects of the credit management program that we examined included prescreening loan applicants for credit worthiness; the use of credit bureau reporting; and the use of collection tools such as the IRS and Federal employee salary offsets.

In response to our recommendations to improve internal control procedures, FmHA generally agreed to take corrective actions. We are continuing to work with the agency to resolve all recommended actions.

Security of FmHA Loans.—During the past year, we completed a review of FmHA loan security. Our audit found that the agency had not been effective in identifying and correcting problems in managing farmer program loans and accounting for security property. We estimate that over 33 percent of loans were undersecured.

Also, FmHA did not properly account for security property for Farmer Program loans. We estimated FmHA had not prepared a Farm and Home Plan for approximately 56 percent of the borrowers and about 30 percent had not had a recent farm visit. As a result, we projected that dispositions of equipment under lien worth $92.3 million were unauthorized and at least $35.6 million in livestock was not accounted for.

Our review also disclosed that FmHA had not adequately supervised Farmer Program loans to avoid delinquency and undercollateralization. We projected that FmHA obtained crop liens for 61 percent of the borrowers who produced crops, and livestock liens for only 47 percent of those who had produced livestock.

We recommended that FmHA take corrective action in those areas with continuing problems, and provide guidance and resources to field staff to train them in the basic loan making, supervision and servicing regulations. FmHA generally concurred with all of our recommendations and has initiated corrective action.

FmHA's Implementation of the Agricultural Credit Act of 1987.—The Agricultural Credit Act of 1987 substantially revised FmHA debt restructuring and loan servicing procedures and requirements. A significant change is the write-down of loan principal and interest to allow borrowers to continue their farming operations. We initiated a multi-phase review of FmHA's overall implementation of the Act in June 1988. The first phase was a review of FmHA's proposed regulations for implementing the Act. Our review showed that the proposed notices to borrowers informing them of the availability of the program did not advise them of their potential tax liability for debt write-downs. We also noted that additional revisions or clarifications were needed in the (1) calculation of net recovery value (i.e., the balance of the proceeds from the sale of security property less liquidation expenses), (2) conservation easement debt write-down (the servicing action wherein the land is placed under a long-term lease with the Soil Conservation Service or the Department of Interior for preservation purposes), and (3) the approval of write-down requests.

The second phase of our work focused on the software developed by FmHA to process applications and debt restructuring actions. Our review disclosed that FmHA needed to perform additional independent testing, as required by Federal and Departmental standards, to ensure that the software provided accurate loan servicing determinations. The software will support servicing of an estimated 118,000 borrowers and an estimated $8.7 billion in potential debt write-down. FmHA agreed with our recommendation to implement additional software validation immediately.

In the subsequent phases of our review, we will continue to examine FmHA's implementation of the Debt Restructuring Program.

REA Generation and Transmission Loans.—We also reviewed loan-making processes in the Rural Electrification Administration (REA). Our review of a $699 million loan application disclosed that the applicant planned to sell about 26 percent of REA-financed generation capacity to an investor-owned utility for a 10-year period. The application included construction costs of $179 million for electrical generation capacity which was to be sold to other power companies not eligible for REA assistance. In our opinion, the proposed sale was inconsistent with objectives of the Rural Electrification Act of 1936, as amended, which authorizes loans to provide electric power to unserved rural customers.

During the audit, REA informed the applicant that other funding would have to be obtained to finance the capacity for the beneficiaries not covered under the Act. This served to meet anticipated borrower capacity needs without the support of a second loan, and also ensured that REA loan funds were used to benefit those targeted by the Act.

INSURANCE

FCIC Compliance Division.—When we last testified before this subcommittee, we noted the high losses and errors being made in adjusting claims under the FCIC Reinsurance Program. Since then, FCIC has established an internal Compliance Division.

At the request of FCIC management officials, OIG offered several suggestions for improving the operations of the Compliance Office. On our recommendation, the office was given organizational independence, and now reports directly to the Manager.

In addition, OIG suggested that the Compliance Division develop a method for routinely reviewing all reinsured companies, as well as a system for tracking the reviews and corrective actions resulting from findings. FCIC has also responded positively to these suggestions.

We intend to do further reviews of the Compliance Division operations this fiscal year. Also, we are currently auditing the loss adjustment process in the crop insurance program for 1988. Our review includes both FCIC policies and those policies sold by private companies reinsured by FCIC. The crops included in our statistical sample have historically represented over 60 percent of the total liability in the crop insurance program. The sample includes both large and small claims in virtually all parts of the country. When our review is complete, we will have reviewed about 150 claims.

FOREIGN AGRICULTURE SERVICE

Targeted Export Assistance Program.—During the last year we have monitored the corrective actions taken by the Foreign Agriculture Service (FAS) on our March

1988 audit of the Targeted Export Assistance Program (TEA). Corrective actions were needed regarding eligibility determinations, participant accounting systems, participant contributions and assessments, third party contributions, claim reimbursements, contract arrangements, payment of advances, and program administration. FAS generally agreed with our recommendations. However, we are planning to perform a follow-up audit on third party contributions and the documentation to support such contributions. We plan to continue monitoring TEA program activities.

PROCUREMENT AND CONTRACTS

OIG performs or contracts for audits of pricing proposals, cost reimbursement contracts and contractor claims. These audits assist procurement officers in the negotiation, administration, and settlement of USDA contracts and subcontracts. During fiscal year 1988, USDA agencies agreed to the findings and recommendations in 47 contract audits, resulting in savings of approximately $6.7 million.

We are also participating with the President's Council on Integrity and Efficiency (PCIE) in an audit of Consulting, Advisory and Assistance Services. This audit is designed to determine if management controls over the use of consulting services throughout the Government are adequate and effective to prevent and detect wasteful and abusive practices such as violations of personnel ceilings, misuse of contract modifications, use of sole source contracts, unjustified needs, avoidance of legal restrictions and conflicts of interest. We will continue to monitor and review the contract award process and the applicable management controls for the procurement of consulting services within USDA.

FISCAL YEAR 1990 OIG BUDGET REQUEST

The fiscal year 1990 budget request for the Office of Inspector General is $52.5 million. For fiscal year 1990, we are requesting an additional 10 staffyears to increase our investigative efforts in the Department's entitlement, insurance and loan programs.

OIG has recently found it necessary to increase investigative activities in certain farm program agencies which historically have had little investigative coverage, such as the Federal Crop Insurance Corporation. We have experienced a significant increase in allegations of indemnity claim fraud in the FCIC Reinsurance Program, which has necessitated additional investigative attention to this complex and labor intensive area. To do those investigations, we have had to shift investigative resources from other agencies. For instance, due primarily to lack of resources for the past several years, OIG has not investigated hundreds of allegations of wrongdoing referred to us by FmHA and ASCS. During fiscal year 1985, we did not investigate 463 matters referred by those agencies. By fiscal year 1988, that number had increased to over 650 matters not investigated. The increase of 10 investigator positions will allow us to more adequately address the serious allegations of wrongdoing from those agencies.

We are also requesting funds be restored to the agency to allow us to fully fund our authorized staffing level and to offset mandatory inflationary increases in such day-to-day operations areas as telephone usage, ADP processing charges and workers' compensation costs.

This concludes my statement Mr. Chairman. I will be glad to respond to questions from the Committee.

BIOGRAPHICAL SKETCH

LEON SNEAD

Leon Snead joined the Department of Agriculture as Deputy Inspector General in September 1986. He came to USDA from the National Aeronautics and Space Administration where he was Assistant Inspector General for Audit.

Mr. Snead began his Federal Government career in 1963 with the U.S. Army Audit Agency. Since then he has held management positions in the Departments of Energy, Treasury, and Interior.

He is a Certified Internal Auditor and is a member of the Institute of Internal Auditors, the Association of Government Accountants, and the Association of Federal Investigators. He has a BBA in Accounting and a JD in Law.

Mr. Snead is a native of Georgia. He and his wife Deborah have three sons, and are residents of Potomac, Maryland.

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

STATEMENT OF DR. JOAN S. WALLACE, ADMINISTRATOR

Mr. Chairman, members of the Subcommittee—I appreciate this opportunity to once again come before you to discuss the programs and budget of the Office of International Cooperation and Development (OICD).

Since its inception in 1978, OICD has had responsibility for providing centralized and focused leadership for the Department's international cooperation and development efforts. These efforts include managing USDA's relationships with multilateral organizations, such as the World Food Program, as well as programs concerned with training, technical assistance, research, scientific and technical cooperation, and private sector relations.

In carrying out these diverse functions, OICD is helping accomplish a number of objectives, prime among these being: Improving the quality of life of people in the developing world; and two-way sharing of agricultural expertise, including gathering and disseminating international scientific information and genetic resources to U.S. organizations and farmers.

OICD, itself, is a very small management agency. However, because USDA is an integral part of the entire U.S. agricultural community, OICD has access to a vast range of U.S. agricultural expertise. It can tap whatever human resources might be most appropriate for international agricultural research and development activities.

As a result, OICD manages and often carries out its mission through cooperative relationships with other USDA and Federal agencies, U.S. universities, the private sector, international organizations, and foreign governments. Specialists for overseas research and technical assistance projects, for example, are drawn from throughout USDA as well as from U.S. universities and the private sector. Most of the training of foreign nationals is done by U.S. universities. The commodity trade groups such as the U.S. Feed Grains Council and the U.S. Wheat Associates—commonly known as "cooperators"—sometimes nominate candidates for specialized orientation programs, conduct study tours, orient agriculturists to U.S. trade practices, and suggest ways our scientific endeavors can further U.S. trade interests.

OICD's role is to provide the management expertise to plan and implement a wide variety of programs, including supplying related logistical support. We coordinate and provide support to U.S. delegations to international conferences, foreign students studying at U.S. universities, U.S. scientists providing technical assistance to Third World nations, and U.S. and foreign scientists exchanging scientific findings or conducting long-term research in other nations.

In any one month, OICD will arrange travel for 200–400 scientists and technicians. We will process some 600 payroll checks for trainees. We will send and receive literally thousands of international cables to negotiate, arrange, monitor, and support various program activities. We will design dozens of training programs, and then do all the contracting and other services needed to implement these plans. In sum, we administer and support programs normally involving 20 or more times as many people as we have staff.

OICD is funded from many sources. In fact, approximately 80 percent of our annual budget resources are provided on a reimbursable basis by the U.S. Agency for International Development, multilateral organizations, and foreign governments.

Our program funds are further increased through cost-sharing arrangements with our cooperating institutions. While our budget tables do not show this, the appropriated dollars associated with some of our programs are actually doubled or tripled, considering cost-sharing contributions from other groups.

To illustrate, the commodity trade organizations frequently do not charge OICD for training or other services they provide. Organizations sponsoring foreign agriculturists participating in the Middle Income Country Training Program provide the international air fare. Agencies of U.S. and foreign scientists participating in other OICD programs often begin their cooperative activities with us by paying the participants' salaries and related expenses. Later, they also share other program costs because of the new knowledge, contacts, or other benefits they are getting by being involved in the program. Foreign governments provide facilities and certain support costs for our overseas research activities, and many governments more than match dollar-for-dollar what we provide.

We are able to leverage funds in this manner because OICD's appropriation provides the base funding and program management needed to bring together resources from many diverse organizations. OICD's appropriation, then, is essentially seed money that gives impetus to a much broader program focused upon benefiting U.S. agriculture through a number of different activities.

PROGRAM HIGHLIGHTS

Since I have been outlining OICD's mission in rather general terms so far, it might be useful at this time to cite a few specific program accomplishments to illustrate the types of work we do.

One activity this past year helped contain the worst locust plague in 30 years. Responding to the U.S. Agency for International Development's need for assistance in North Africa and the Sahel, OICD rapidly tapped resources from various USDA agencies to secure USDA technical experts, identify effective pesticides, and arrange procurement and timely shipment of the tools necessary to combat the plague. USDA's response helped avert the looming tragedy of famine as these insects swept across the region and devastated crops.

The U.S. Rice Council for Market Development reports that another OICD program was instrumental in finalizing the sale of U.S. brown rice to Cote d'Ivoire (Ivory Coast). The Council expects this first sale of 12,000 metric tons to more than double in the near future. This was made possible by the Middle Income Country Training Program, through which the groundwork was laid for the export of the first cargo ever of U.S. brown rice to Cote d'Ivoire. This training program was begun in 1984 at the initiative of the Congress.

Our overseas research programs have continued to focus on topics determined to have much potential benefit to the U.S. agricultural community. To illustrate:

A grain elevator explosion in Illinois about a year ago underscored the value of research being conducted at the Warsaw University of Technology in Poland regarding grain dust explosions. Because of unique underground mine facilities, full-scale detonations can be studied. This will make significant contributions toward understanding the mechanism of grain dust explosions and ways to control them.

Studies on high-yielding Taiwanese shrimp ponds determined that production was being doubled and tripled through use of paddle wheels for aeration. Similar increases are now being demonstrated in the U.S. shrimp industry as the new technologies are being adopted here.

Research to solve problems of thermal stability in soybean oil when it is used for cooking has been praised as the key to opening vast Asian markets for this commodity.

Through still another OICD program—Scientific and Technical Cooperation—major agricultural cooperation agreements have been resumed with the USSR and the People's Republic of China (PRC). Under the USSR program, the United States has obtained annual winter and spring wheat crop information, collections of forage grass germplasm, and invitations to conduct seminars on feed mixing and processing. Under the PRC agreement, the U.S. has collected soybean and peanut germplasm, conducted a joint citrus symposium, collected promising natural agents from Chinese forests for gypsy moth control, and arranged for a U.S. university/private sector team to work with the Chinese on wheat quality differentiation in China.

We also co-sponsored three international conferences, one on Africanized honey bees and mites, one on water quality modeling, and the third on poisonous plants and their effects on grazing livestock. As an outgrowth of one of these conferences, bee and mite scientists have authored a textbook on Africanized honey bees and bee mites which provides an up-to-date review of research results from around the world.

Last year, we arranged for some 780 technical assistance advisors to work in developing nations, and managed U.S. training programs for some 2,500 agriculturists from overseas. Most of this work was sponsored by the Agency for International Development.

I could continue citing examples of how our programs have contributed to development in lower income nations or how they have produced research of benefit to American farmers or led to direct trade opportunities. However, I hope this will illustrate to you the types of programs we have been implementing, utilizing resources of the entire U.S. agricultural community.

Before moving on to our budget recommendation, I would like to make a comment on the impact of development assistance on agricultural trade. Analysts, such as Robert Paarlberg from Wellesley College and the Harvard Center for International Affairs, say that developing countries are the most likely—and perhaps the only—growth markets for U.S. agricultural exports. Economic development is a critical first step, though, so poor nations can have money to be able to buy from us. The best U.S. strategy for increasing the potential of agricultural exports to developing countries is to encourage economic growth in these markets. This will lead to higher incomes and increased food demand. As incomes improve, for example, people begin shifting from starchy foods to diets including more meat, until about 40 percent of the total calorie intake is derived from animal products.

OICD is cognizant of this relationship between economic development and trade, and attempts to implement its activities keeping in perspective the importance of both.

FISCAL YEAR 1990 BUDGET RECOMMENDATIONS

Turning now to the fiscal year 1990 budget, the total amount recommended for OICD is $4,983,000, or $336,000 less than appropriated for fiscal year 1989. It provides an increase of $167,000 to support the agency's activities in conjunction with the international food and agricultural organizations; $235,000 to support private sector initiatives in the Caribbean region; and $750,000 to improve our administrative and financial operations through automation. No further funding is proposed for two OICD programs in 1990: the Middle Income Country Training Program and the Scientific Activities Overseas Program.

Our first increase is necessary to have a USDA official represent U.S. agricultural interests full-time with the international food organizations in Rome. Although OICD's appropriation has never included funds for this work, the position has been considered essential and staffed by the Department since 1979. Our current resources no longer let us fund this effort, however.

It is important that there be a USDA official representing us at the 30–40 international meetings that focus on agricultural technical issues each year. It is critical that we monitor activities and guard U.S. interests on a daily basis. We strongly believe in the mission of this representative, which is to monitor developing issues, provide regular input into on-going discussions, ensure all meetings are attended by knowledgeable U.S. agricultural personnel, and develop the in-depth knowledge necessary to advance and protect the interests of USDA and the American agricultural community.

The second requested increase is for private sector initiatives in the Caribbean and Central America. OICD has so far had to rely upon highly unpredictable sources of funding to implement the recommendations of the Secretary's Agribusiness Promotion Council, a private sector agribusiness advisory group which makes recommendations to enhance U.S. investment, trade, and marketing in these regions. Rather than the recommendations of this prestigious group, the *ad hoc* availability of funds has determined the initiatives to be undertaken. This is not the way the program should operate.

Work toward expanding two-way trade and strengthening relationships with our Caribbean and Central American neighbors, whose economies are essentially agriculturally based, is too important to be conducted on an *ad hoc* basis.

The third requested increase is to improve our administrative and financial systems, including "Operation FAST:" Financial Accounting and Systems Tracking. This funding will be used to purchase ADP equipment, to provide training, and to support staff costs related to upgrading OICD's administrative, budget and accounting capabilities. New administrative controls introduced by AID, the increasing complexity of overseas billings and collections, and the necessity of ensuring smooth and reliable interaction with USDA's accounting systems at the National Finance Center, all require the upgrading of OICD's financial and administrative information systems. This improvement has been supported fully by the Department.

We have never before asked for an appropriation to support these administrative costs. We can no longer take them from program funds, though. We need to have financial resources to support the myriad financial and other administrative reporting requirements which are part of being a U.S. Government agency with international management responsibilities.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions.

NATIONAL AGRICULTURAL LIBRARY

STATEMENT OF JOSEPH HOWARD, DIRECTOR

Mr. Chairman and members of the Subcommittee, I feel privileged to appear before you today to explain the proposed fiscal year 1990 budget for the National Agricultural Library (NAL). First, however, I would like to introduce Mr. Sam Waters, the Associate Director of the Library.

As one of three national libraries, the National Agricultural Library serves as the national resource for the collection and dissemination of information on all aspects of agriculture. NAL fulfills national and international responsibilities as the ultimate source for access to worldwide agricultural information, published in any format, while giving special attention to meeting the information needs of the Department of Agriculture.

Now the Library's role and posture is rapidly evolving beyond the traditional concept. I personally feel fortunate to be taking part at a remarkable and challenging time in the evolution of Information service. I should like to outline some of these challenges while reviewing a number of the Library's accomplishments during the last year.

I believe three trends—outreach, cooperation, and information technology—are responsible for revitalizing NAL and bringing it to the status of a world class library.

Massive new scientific research on specific agricultural topics, and the knowledge resulting from that research, which in turn creates new information handling needs, have had a significant impact on NAL. We have attempted to meet these needs through outreach, primarily by establishing specialized information centers, focused on a given subject, operated by one or more information specialists who can draw on all the resources of NAL. Centers are established on the basis of Congressional mandates, or because the issue is a major thrust of the USDA. Our specialists identify the people and organizations concerned with each issue and try to determine their information needs, and what information products or services should be developed to assist these end-users. At the same time, we seek resources to carry out the desired projects in a cooperative mode.

One of these centers supports biotechnology research for agriculture, a very high priority in the Department. An increase of $100,000 is being requested to enable this center to increase its efforts, since research on plant genetics is expanding rapidly. The National Library of Medicine has a National Biotechnology Information Center focussed on the human genome. We are working closely with them, to insure that plant gene sequence information obtained by NAL will be handled in compatible fashion. Much more needs to be done to insure that plant gene information is made accessible.

One of our fast-growing centers was established in cooperation with the Extension Service (ES), for Rural Information. The final Appropriation Bill for fiscal year 1989 reflected $1 million less than the Conferees approved. This is severely impacting funds available for the Rural Information Center and several other programs in fiscal year 1989. We sincerely hope the fiscal year 1989 Appropriation can be adjusted as soon as possible. Also, for fiscal year 1990, this budget includes $173,000 for the Rural Information Center, and funds for other important projects including $173,000 for a Technology Transfer Information Center; $577,000 for the Animal Welfare Information Center; and $77,000 for networking activities.

New to our request this year is $250,000 for a Water Quality Information Center. Currently our staff is actively engaged in a project to support this thrust, one of the highest priority concerns of the Department. Specifically, we have established a water quality conference on our new electronic bulletin board. That conference allows many interested parties, including staff members of Congressional committees and the National Academy of Sciences, to share information of current interest.

Our centers play an essential part in expanding NAL's ability to help both its current and potential users. From being an organization that waited passively for its customers to come to it, NAL has changed to one that actively identifies the people interested or working on a given topic, seeks them out, determines their information needs, and develops products and services to help meet those needs.

There are now over a dozen of these centers at NAL covering subjects such as Agricultural Trade and Marketing; Alternative Farming Systems; Animal Welfare; Aquaculture; Biotechnology; Critical Agricultural Materials; Family; Fiber & Textile; Food and Nutrition; Food Irradiation; Horticulture; and Rural Information.

Our newest center is the Youth Development Information Center, also established, partially funded, and operated in cooperation with the Extension Service.

This center reflects an important approach that has enabled NAL to do more with less. We are proud of our increasing cooperation with USDA agencies. We have mentioned the support of the Extension Service for our Rural Information Center. In addition, we are working more closely with the field libraries of the Agricultural Research Service (ARS). The Current Research Information System (CRIS) database prepared by the Cooperative State Research Service (CSRS) now shares space on a easily searchable compact disk with our own AGRICOLA database. We have just assisted the Economic Research Service (ERS) in placing one of their databases on a compact disk. We are also cooperating with other Federal agencies. Among projects carried out with their funding support is one to demonstrate the use of new technologies to convert publications in the field of aquaculture to electronic form, to be issued on compact disks searchable by any word or combination of words.

Finally, we are engaged in extensive cooperative activities with the land-grant and other agricultural libraries. Over 40 of these libraries have contributed funds to our National Agricultural Text Digitizing Project that will test, on publications in other fields, the technology we are using to convert aquaculture materials to digitized images and text. We are requesting a total of $277,000 for network programs in fiscal year 1990 above the 1989 level. We regard this as seed money that will result in mutually beneficial programs, with real savings for the government through shared funding of projects that reduce duplication of effort. Meanwhile, NAL has stimulated the initiation of a U.S. Agricultural Information Network, which is just beginning to study possible cooperative projects.

Another important factor enabling NAL to take advantage of opportunities for increased support of high priority agricultural work is INFORMATION TECHNOLOGY. New technologies not only empower us to provide new and better services, they expand our vision of the possible and transform our goals.

Although no library will ever do away with all their books, NAL has begun the process of building an ELECTRONIC LIBRARY, featuring laser technology in such products as CO-ROM disks containing our database, and videodiscs containing photographs for the Forest Service and for the USDA Office of Governmental and Public Affairs. I have mentioned our project to digitize the full text of publications, which may have the greatest potential of all our programs. These technologies enable us to make more and more information readily accessible and usable.

As we build an electronic library, a LIBRARY WITHOUT WALLS becomes possible. We are using telefacsimile to deliver copies of journal articles, and our new electronic bulletin board speeds communication between NAL and its clientele. It also permits our users to carry on dialogues among themselves, as they do in the conference on water quality mentioned earlier. A number of expert systems for ready reference that NAL prepared can also be down loaded from the bulletin board.

I have discussed three important thrusts of the NAL program: outreach through specialized information centers; cooperation with USDA and other Federal agencies, and with land-grant libraries; and the early application of advanced technologies. They are largely responsible for the transformation and revitalization of our services. However, without an adequate infrastructure, even the use of these approaches will falter.

We are requesting $250,000 for library materials; $250,000 for book binding; $125,000 for a feasibility study on capital requirements; and $278,000 for general increased operating expenses for library supplies and materials, databases sources, and equipment. These funds are essential to maintaining our collections and the basic library services of reference work and document delivery, without which none of the other programs could function.

The proposed increase for fiscal year 1990 for a feasibility study on capital requirements is necessary to conduct a comprehensive review of the building and fixed equipment. Included in this study will be an assessment of current conditions: resulting in the specification requirements, and appropriate schedule and priority ranking of tasks for completion. A number of problem areas need immediate attention. The building lacks a fire detection and suppression system; a need exists for proper atmosphere control for humidity and temperature for the proper storage of about 2.1 million volumes of vital agriculture information; and fixed equipment that was installed over 20 years ago may need replacement. This study will also consider joint cooperative efforts for the preservation and protection of library materials, and the continued evaluation of advanced technology for the storage of information.

We are requesting an increase of $1.6 million above the currently available 1989 level for a total of $14,947,000 for fiscal year 1990. Without your support, we will not be able to do an adequate job of supporting the high priorities of the Congress and the Department for agricultural research, extension, education, management, and production.

Mr. Chairman, I and my colleagues will be happy to answer any questions that you might have.

NATIONAL AGRICULTURAL STATISTICS SERVICE

STATEMENT OF CHARLES E. CAUDILL ADMINISTRATOR

Mr. Chairman and members of the Committee, it is an honor to appear before this distinguished Committee to present the National Agricultural Statistics Service's (NASS) fiscal year 1990 budget request. The Committees continued recognition of the need for a strong agricultural statistics program and your support are appreciated.

The NASS administers the USDA's program of collecting, compiling, and disseminating current national and State agricultural statistics. Research designed to improve the statistical methods and techniques used to produce agricultural statistics is also conducted. In addition, NASS performs reimbursable survey work for other Federal, State, and producer organizations.

Statistical data developed by NASS on the Nation's agriculture are essential for the orderly development of production and marketing decisions by farmers, ranchers, and other agribusinesses. These agricultural data series are also used for monitoring the everchanging agricultural sector and for making and carrying out agricultural policy relating to farm program legislation, commodity programs, agricultural research, rural development, and related activities.

FISCAL YEAR 1990 BUDGET REQUEST

The fiscal year 1990 budget request is $71,038,000. This request includes an increase of $1,450,000 to complete the final phase of a data quality program for crop estimates and $6,000,000 for funding a major information technology improvement.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The primary activities of NASS are the collection, summarization, and analyses of data and publication of accurate and reliable agricultural forecasts and estimates. Thousands of farmers, ranchers, agribusinesses, and others voluntarily respond to nationwide surveys about crops, livestock, and other agricultural activities. These surveys are supplemented by field observations, objective yield counts and measurements, and other administrative data to provide reliable information. Annually, estimates for about 120 crops and 45 livestock items are published in about 300 reports prepared by NASS's Agricultural Statistics Board (ASB).

The agricultural production and marketing data that are developed and published by NASS include: number of farms and land in farms; acreage, yield, and production of grains, hay, oil seeds, cotton, tobacco, some fruits and vegetables, floriculture, and other specialty crops; stocks of grains; inventories and production of hogs, cattle, sheep and wool, goats, catfish, trout, poultry, eggs, and dairy products; prices received by farmers; prices paid by farmers for inputs and services; cold storage supplies; and other data related to the agricultural economy.

The NASS agricultural statistics program is conducted through 45 State Statistical Offices (SSO's) servicing all 50 States. These SSO's are operated under cooperative funding arrangements with State Departments of Agriculture and/or Land-Grant universities. This arrangement efficiently serves the agricultural data needs at both the State and Federal levels and eliminates duplication of effort. Twenty-two of the NASS State offices are physically located in State office buildings. These beneficial collocations provide increased service and additional agricultural data for State and local needs while minimizing overall costs to the Federal Government.

A research program is conducted to improve the statistical methods and techniques used in developing agricultural statistics. This research is directed towards improved sampling, yield forecasting, and survey techniques. A remote sensing research program is continuing with the objective of increasing the accuracy of domestic crop acreage and land cover estimates.

The NASS also conducts surveys on a reimbursable basis for other Federal, State, and private agencies or organizations. Our existing survey capability can provide these services much more efficiently than having each agency conduct its own surveys. In addition, technical assistance in the development of agricultural statistics programs in foreign nations is also conducted on a reimbursable basis.

The NASS periodically seeks input on data needs and priorities from data users through individual contacts, meetings with commodity groups, ASB briefings, other Departmental and Federal agencies, and regional data user meetings. Six data users meetings for 1989 were held this month. The Agency has made many adjustments in its program in response to suggestions made by data users indicating that new data series or changes in current series are needed. Users support the policy that statistical efforts should continue to place emphasis on data quality over quantity. Although NASS has received some budgetary increases in recent years, these were mostly for specific program changes. Funds to offset inflationary costs have generally not been approved. This has led to a decline in real resources. Fewer real resources have resulted in deterioration in the quality of some statistical series. Balancing of program needs against available funds has become progressively more difficult. Requests continue for expanded detail, wider geographic coverage, more frequent reports, new data series, and restoration of data series discontinued because of budget restrictions.

FISCAL YEAR 1990 PLANS

The budget request includes $1,450,000 for continuing the NASS effort to strengthen the crops estimating program by shifting all major surveys to a probability basis. This funding would allow the completion of a multiyear program that was initiated in fiscal year 1983. This quality-oriented program has been strongly recommended by several outside review teams that examined NASS methodology in recent years. These additional funds will be specifically used to incorporate the monthly crop yield surveys in 45 States into the probability survey program, resulting in greater reliability of crop forecasts.

An increase of $6,000,000 is requested to acquire ADP equipment to provide the 45 State Statistical Offices with up-to-date capability for collecting, analyzing, and processing survey data. Additionally, the ASB needs to establish a data base with easy accessibility to improve analysis procedures and to further develop and use statistically defensible and repeatable procedures. The new equipment would provide for expanded use of computer-assisted telephone interviewing and computer-assisted personal interviewing. It would also provide on-line capability for maintaining list sampling frames resulting in more up-to-date lists and more efficient sample designs. In total, this special initiative to update NASS information technology will provide the capability to improve operating efficiency, as well as to improve the quality of NASS statistics.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

QUESTIONS SUBMITTED BY SENATOR BURDICK

QUARTERLY OAT STOCKS ESTIMATE

Question. Apparently, USDA discontinued publishing quarterly on-farm and off-farm stocks estimates for oats in 1986. Do you plan to reinstate the publication of these reports?

Answer. The National Agricultural Statistics Service discontinued the quarterly reporting of oat stocks in 1986. Since then, only a June 1 end-of-season estimate has been made. The elimination of quarterly oat stocks estimates and other program cuts were required because of budget reductions. There are no current plans to reinstate these quarterly estimates without additional funding.

Question. What would it cost to reinstate these reports in 1990?

Answer. The cost to reinstate these three quarterly oat stocks estimates in the 42 estimating States is $45,000 for fiscal year 1990.

PACKERS AND STOCKYARDS ADMINISTRATION

STATEMENT OF B. H. (BILL) JONES, ADMINISTRATOR

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before the Subcommittee to discuss the programs of the Packers and Stockyards Administration (P&SA) and the Agency's budget request for fiscal year 1990. First, may I introduce my associate, Calvin W. Watkins, who is responsible for the Agency's budget work.

Most of you are familiar with the traditional programs of the Agency under the Packers and Stockyards Act. As you are aware, the Packers and Stockyards Administration is primarily an investigative and law enforcement agency and is charged with maintaining economic law and order in the marketing of livestock, meat and poultry and in the marketplace. The Agency works with the FBI, the IRS and the Postal Inspection Service in criminal prosecutions.

In addition to the Packers and Stockyards Act, the Clear Title provisions contained in Section 1324 of the Food Security Act of 1985 were delegated to the Administrator by the Secretary. Also, the Packers and Stockyards Act was amended by the "Poultry Producers Financial Protection Act of 1987" to add statutory trust and payment provisions similar to those adopted in 1976 for livestock producers.

SIGNIFICANCE OF LIVESTOCK, MEAT AND POULTRY

The production and marketing of livestock, meat and poultry are important segments of agriculture and are of significant importance to the economy. Cash farm receipts of livestock and poultry amounted to $57 billion in 1988, approximately 38 percent of total receipts. The wholesale value of red meat and poultry in 1988 has been estimated by the Department of Commerce to be over $75 billion.

PROGRAMS UNDER THE P&S ACT

As you are aware, livestock, meat and poultry production and marketing are continuing to change. Fortunately, the P&S Act is written in such a manner as to allow for program modification to meet the needs of a changing industry.

The programs of the Agency under the Act are divided into two major areas: Livestock Marketing and Packer and Poultry. The goal of the Agency under normal circumstances is to allocate its resources on approximately an equal basis between the two major program areas. However, allocation flexibility must be maintained in order for the Agency to respond to changing conditions. The current financial situation in the industry has continued to demand additional resources be channeled to financial and payment program activities.

For fiscal year 1988, there were 1,770 posted stockyards; 9,670 registrants, including 7,180 market agencies/dealers and 2,490 packer buyers; approximately 6,500 slaughtering and processing packers; and an estimated 6,900 meat distributors, brokers, and dealers. Of the slaughtering packers, 638 purchased over $500,000 worth of livestock and were required to file annual reports with P&SA and to be bonded. There were an estimated 275 poultry firms subject to the Act.

FINANCIAL PROBLEMS

Financial problems continue to plague firms engaged in livestock, meat, and poultry marketing. Under these circumstances, it is particularly important to the stability of the farm economy for livestock producers and poultry growers to receive full payment when due.

These conditions have again forced the Agency to allocate additional resources and give special priority to the financial area. During fiscal year 1988, 6 auction markets failed financially owing $217,000 for livestock; a little over $117,000 was recovered from bonds and other sources, leaving approximately $100,000 in losses. Also, during the last fiscal year, 16 dealers/order buyers failed owing $1.5 million for livestock; a little over $504,000 was recovered from bonds leaving $1,033,000 in losses.Although these losses are considerably less than in the previous fiscal year, it is much too early to conclude that this is indicative of a positive trend in this area.

The existence of the statutory packer trust provision in the P&S Act has contributed significantly to reducing producer losses due to financial failures of meat packers. This has been especially significant in light of the number of meat packers which have failed financially in recent years—averaging more than 20 failures annually since 1985.

During fiscal year 1988, cash sellers of livestock were paid $1 million from 9 packers under the statutory packer trust provision. This brings the total paid to cash sellers to over $31.3 million since the adoption of the trust provisions of the Act in 1976. This proven success was one of the factors which led Congress to provide similar protection to poultry growers and producers in 1987 through amendments to the Act.

In addition to amounts covered via the trust, bond proceeds of $321,000 were paid in 1988.

LIVESTOCK MARKETING

The primary responsibilities of the Livestock Marketing Division are to assure prompt and full payment to livestock producers, prevent unfair trade practices, and foster open competition by stockyards, market agencies and dealers. The bonding, solvency and custodial account requirements are given high priority in order to provide maximum payment assurance to livestock producers.

In addition to the financial responsibilities discussed above, fraudulent practices are also a serious problem in livestock marketing. Emphasis is given to investigations of false weighing, weight and price manipulation, switching of livestock, and misrepresentation as to the source, origin and health of livestock.

Competition for livestock should be open and free of restrictions. Any practice, agreement, or understanding which excludes potential buyers from bidding in open competition would be considered a restraint on competition. Practices which result in the lessening of competition for producers' livestock include apportioning of territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers. Information or complaints which indicate a possible restriction of competition are investigated on a priority basis.

PACKER AND POULTRY

The primary responsibilities of the Packer and Poultry Division are to assure prompt and full payment to livestock and poultry producers; to foster open and free competition in the procurement of livestock by packers; and to prevent noncompetitive practices in the marketing of meat and meat products. High priority is given to assuring payment for livestock through bonding, solvency tests, and the statutory trust. As noted above, the existence of the packer trust has helped substantially in reducing losses to producers who sell livestock on a cash basis to slaughtering packers.

The poultry amendments to the Act, which became effective February 21, 1988, now give similar protection to poultry growers and producers through statutory trust and payment provisions. Regulations have been developed to implement the new statutory provisions. They are now going through the clearance process and will be published soon in final form in the FEDERAL REGISTER.

LIVE POULTRY MARKETING

The poultry program continues to take on added significance as a result of the 1987 amendments. The new administrative authority will make enforcement of the statutory trust and payment provisions more effective and efficient. The Agency, however, will continue to encounter serious delays with respect to trade practice violations, since administrative procedures cannot be utilized and enforcement proceedings must be handled through the Federal District Courts, a costly and time-consuming process.

As of February 15 of this year, Agency personnel have met with industry representatives at 331 poultry operations (approximately 260 poultry firms) to explain the requirements contained in the new legislation. Since the amendments became effective on February 21, 1988, the Agency has issued two formal complaints and has several ongoing investigations under the statutory trust and payment provisions.

MEAT MARKETING

Commercial bribery in the wholesale meat trade continues to demand significant attention. This practice places competitors at a disadvantage since sales and purchases are made on other than product price, quality, and service.

Bait-and-switch operations are also a continuing problem. The Agency works with State and local authorities on cases of this nature.

MEAT PACKER CONCENTRATION AND CAPTIVE SUPPLIES

Meat packer concentration, feeding and forward contracting are prominent issues being discussed in the industry, especially by producers. Concentration accelerated during 1987 and continued into 1988. For example, the top 10 slaughterers of steers and heifers during calendar year 1985 were merged into 5 by the end of 1987. In other words, it has not been a case of the "big ones swallowing up the little ones" but rather "the big ones merging with the big ones" in the case of steer and heifer slaughterers. Also, acquisitions have resulted in the merging of specialized poultry firms and traditional red meat firms. These developments, along with the moves on the part of meat packers to gain captive supplies through feeding and forward contracting, have prompted the Agency to review its priorities.

The four largest firms slaughtered 67 percent of total commercial slaughter of steers and heifers in 1987. Boxed beef production by the top four firms was 80 percent of total production. The increase in concentration has also been notable with respect to sheep and lambs, with the four largest firms slaughtering 75 percent of the 1987 commercial slaughter. The 4-firm concentration ratio for hog slaughter has not shown the same trend. This ratio was 37 percent in 1987; however, it should be noted that hog slaughter is undergoing significant change at the present time which will result in a significant increase in the 4-firm concentration ratio.

Under the Hart-Scott-Rodino Act, firms, including meat packers, are required to submit premerger notification and information to the Department of Justice and the Federal Trade Commission. P&SA has and will continue to provide analyses, counsel, and information on industry structure, concentration and other factors to Justice and FTC in connection with proposed mergers of meat packers.

The supply situation of both fed and feeder cattle, together with excess plant capacity, will likely mask any measurable negative effect of concentration and captive supplies on market performance and cattle prices in the foreseeable future. But, if and when livestock prices turn downward significantly, producers will no doubt focus more intensely on the concentration and captive supply issues. There is definitely a lack of consensus among livestock producers with respect to the advisability of government intervention and the extent thereof to stem the concentration and integration trends.

The moves toward greater concentration in meat packing and packer feeding and forward contracting have prompted the Agency and the Commodity Futures Trading Commission to further reinforce coordination between the two agencies with respect to the interaction of the cash and futures markets.

FURTHER PROCESSING—RED MEAT AND POULTRY

Further processing continues to be a significant development in the industry. This term includes fabrication beyond wholesale cuts in the case of red meat, and of whole birds in the case of poultry. Also included are portion control (individual portions), the manufacture of specialty, convenience and partially-to-fully cooked products, ready-to-serve products, packer branded products and the like. These developments have far-reaching implications for producers, consumers and agribusiness firms in the industry. The Agency will keep abreast of the changes and modify its programs and priorities accordingly.

Boxed Beef Production: The proportion of fed beef which is boxed has continued to increase. Also, slaughtering packers continue to increase their share of total boxed beef production. Boxed beef production increased to 22.6 million carcass equivalents in 1987, 80 percent of the 28.3 million steers and heifers slaughtered that year.

SCALES AND WEIGHING

The major emphasis of the Agency's scales and weighing program continues to be directed toward weighing investigations. Economic pressure on individuals and firms engaged in livestock marketing contributes to falsifying weights as a means to improve income. This has prompted the Agency to increase the emphasis placed on scales and weighing. During fiscal year 1988, the Agency conducted over 500 formal weighing investigations. Of these, slightly over 13 percent disclosed false or questionable weighing.

The Agency actively participates with the National Conference on Weights and Measures and the National Institute of Standards and Technology's Office of Weights and Measures in the development of standards, specifications and tolerances for livestock and carcass scales. The Agency also participates in the development of national training programs and provides training to State weights and measures officials and private scale testing companies in the application of these standards, specifications and tolerances.

CLEAR TITLE

As of February 15, 1989, sixteen States had applied for and received certification of their central filing systems under Section 1324 of the Food Security Act of 1985. An application from the State of Colorado is now pending. Some of the States previously certified applied to modify their systems during the past year.

The Agency is currently reviewing its procedures for carrying out the responsibilities for certifying central filing systems to determine if it should be providing additional assistance to States now operating central filing systems.

AGENCYWIDE INFORMATION MANAGEMENT SYSTEMS (AIMS)

The Agency continues to make progress in implementing its automated information management system. Many administrative processes are being fully automated to increase management efficiency. A revised financial risk-rating program is also being implemented.

Continued development of the system will help the Agency reach its goal of emphasizing surveillance as opposed to "mopping up" after violations have occurred, particularly in the financial areas.

FISCAL YEAR 1990 BUDGET REQUEST

The total budget request of the Packers and Stockyards Administration for fiscal year 1990 is $9,562,000. Included is $9,434,000 for the administration of the Packers and Stockyards Act and $128,000 for Clear Title.

The request is the same as the 1989 funding and will provide for overall program activities at the 1989 level.

Mr. Chairman, the Agency appreciates the opportunity to present this statement. We welcome the opportunity to respond to any questions you and other members of the Subcommittee may wish to ask.

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

STATEMENT OF JOHN J. FRANKE, JR., ASSISTANT SECRETARY FOR ADMINISTRATION

Mr. Chairman and members of the Subcommittee, I am pleased to appear today to discuss with you the activities and the fiscal year 1990 budget request for the Office of the Secretary, Departmental Administration, Advisory Committees, GSA Rental Payments and Building Operations, the services provided to USDA agencies through the Department's Working Capital Fund, and for Hazardous Waste Management.

OFFICE OF THE SECRETARY

As you know, Mr. Chairman, there is no single appropriation for the Office of the Secretary. The funding of salaries and expenses of the 85 staff years which provide policy oversight and direction to the activities of the Department are contained in no less than 12 separate appropriations. Only the Immediate Office covers more than five staff years. The remaining 11 appropriations provide for the Deputy, Under and Assistant Secretaries, and average $381,000.

Every year since 1986, we have asked to return to a single, consolidated appropriation. This year we do so for a special reason: There is now a new management team. The new Secretary and his staff are assuming command at a time when the Nation is grappling with serious agricultural issues. The Secretary must address these issues successfully, and he must have your cooperation and support to do so. He must have the tools at his disposal to do the job. And, he needs as much flexibility as possible.

A consolidated account would increase the Secretary's flexibility to assign and redirect resources among his key policy officials. It will enhance his authority and help him carry out the goals and objectives of the Department.

I earnestly request that you, in the spirit of cooperation, grant the new Secretary this needed flexibility. The present arrangement dilutes his ability to influence and control the performance of key policy officials reporting to him. This, in turn, complicates the provision of policy oversight and direction to USDA programs and fragments the management of USDA.

This proposal is not intended to avoid the oversight and the direction of this Committee. We would provide the same level of detail in our budget presentation and explanatory notes as you now receive. The difference would be that instead of 12 appropriations, there would be one.

The fiscal year 1990 budget request for these activities totals $6,115,000. This is an increase of $162,000 or 2.7 percent above the current estimate for fiscal year 1989. The increase consists of $29,000 to fund an added staff year in the Office of the Deputy Secretary for a chauffeur previously funded by the Office of Operations. An offsetting reduction has been made to the Office of Operations resources in the Departmental Administration account. An added $51,000 is needed to restore funding for the Office of the Assistant Secretary for Natural Resources and Environment, which will allow that office to provide guidance and oversight to the Forest Service and the Soil Conservation Service in an efficient and effective manner. An increase of $82,000 is requested to allow these offices to meet the rising costs of operations. This includes telephone costs previously funded by the General Services administration for the Secure Telephone Unit (STU). We have been notified that the STU will be upgraded to meet National Security Agency guidelines, and we will be responsible for long term funding of the maintenance of the new STU III network. Other costs that are increasing include communications, printing, supplies, contracts and other services.

DEPARTMENTAL ADMINISTRATION

I will now move, Mr. Chairman, to the activities in Departmental Administration. As we developed the fiscal year 1990 budget we tried to look ahead to the future, to see what management actions we must initiate during the 1990's. We noted the trends that will challenge us to explore ways to improve our management, to increase our productivity, and to help USDA agencies provide the best possible level of service through their programs. These trends include:

The increased importance of racial and ethnic minorities, who will make up an even greater proportion of the total population and workforce.

The need to emphasize a quality workforce and develop Federal employment practices in hiring, training, promotion, compensation and retention that are competitive with the private sector.

The increased demand from the public for effective and accessible government services and information. Services must be available during other than traditional business hours to meet the needs of households where either most single parents work or both spouses work.

The increasing use of modern telecommunications technologies to conduct government transactions, store and access records.

The challenges posed by these trends require an investment of resources. However, if we are to keep pace with change, we must make that investment. At the same time, however, we are mindful of the need to reduce Federal spending. We are proposing initiatives that will yield a return on investment in terms of improvement in the operational efficiency and effectiveness of the Department's programs. We request an increase in fiscal year 1990 of $1,132,000. This is only 4.4 percent above the fiscal year 1989 appropriation of $25.9 million. This investment is modest compared with what we hope to accomplish. Specifically, we request resources for the following initiatives:

An increase of $165,000 for increased office automation and automated budget activities of the Office of Budget and Program Analysis. These funds will allow this Office, following an analysis of their systems automation needs, to modify and upgrade ADP hardware and software programs that will be 8 years old by 1990. This is vital to enable the OBPA to continue its ability to respond during the preparation of the President's budget, the Congressional review process and to exchange automated data with the OMB and several agencies to aid in the analyses of key programmatic, budgetary and legislative issues.

An increase of $130,000 for the Office of Personnel to support USDA agencies from the Payroll/Personnel database at the National Finance Center, which is needed to provide information on the USDA workforce (e.g., personnel history data and statistical profiles). Also, the increase provides resources for a recruitment demonstration project, which allows the Agricultural Research Service and the Forest Service to recruit "outside" the normal government process for hard to fill positions. We are testing this as a pilot to determine whether changes in the present time consuming recruitment system will make the Federal employment system more competitive in attaining a quality workforce that represents all segments of our society. We hope this will become a model system for the Federal government.

An increase of $229,000 for the Office of Finance and Management that will allow OFM to respond to new audit resolution and follow up requirements of the Office of Management and Budget and General Accounting Office, as well as to upgrade budget and fiscal services to the Office of the Secretary, Departmental Staff Offices, and related appropriations. OFM's management responsibilities under A-50 "Audit Follow-up" are increasing substantially. There are approximately 5,000 audits of USDA agencies activities per year, which in turn generate 53,400 actions per year. These added resources will help establish an automated audit tracking system, will allow for analysis of trends and problems, and, on a limited basis, will provide technical assistance to our agencies in the resolution of audit differences.

In the area of budget and fiscal services, the appropriations serviced have grown both in number and complexity. Over the last several years, central appropriations have been established for GSA Rent, Building Operations, Advisory Committees, and Hazardous Waste Management, substantially increasing the Office's workload. The appropriation for the Office of the Secretary has been split into 12 separate appropriations, and the appropriation for the Office of Governmental and Public Affairs has been split into three separate appropriations. Each new appropriation requires as much work as any larger appropriation in terms of planning, financial reporting and monitoring requirements. This Office's staffing for budget and fiscal services has not kept pace accordingly. The added resources requested will go a long way toward insuring a continued level of service.

A net increase of $177,000 for the Office of Operations will provide resources to develop, monitor, manage, and operate a central USDA motor vehicle information system. This system is necessary to satisfy the requirements of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and the Federal Property and Administration Act. We are requesting resources to achieve the savings mandated under the COBRA and to bring oversight and control to our motor fleet operations. This will enable our agencies to develop motor fleet management information systems that help keep fleet sizes to a level consistent with minimum requirements and that are cost competitive with other sources, e.g., leased vehicles. These efforts involve staff time, ADP costs and linkages to the central NFC data base, and travel to review property management systems that track these vehicles. Also, we will be overseeing the implementation of new policies and regulations regarding use of motor vehicles between home and the work site that requires travel to various field locations.

We will also use the increased resources to implement the Department-wide, generic real property information system. This system uses a GSA developed system, Foundation Information for Real Property Management (FIRM), to assist USDA managers with their real property inventories, space assignments and utilization. It has been tested and demonstrated to interested agencies of the Department. We are requesting resources to train personnel on the access and use of the system, to transfer existing files to the FIRM data base and for systems operations. This system will allow our managers to better assess, assign and use their space.

An offsetting reduction of $29,000 has been made to fund an added staff year in the Office of the Deputy Secretary for a chauffeur previously assigned to and funded by the Office of Operations.

An increase of $266,000 for the Office of Information Management will allow USDA to reassess the Department's central telecommunications requirements (Agriculture Communications Network or AgComnet) for the coming decade and to prepare telecommunications contract requirements. This is needed to ensure the continuation of long haul data communications services to USDA agencies and program recipients after the Departmental Network (DEPNET) contract with TELENET, Inc. expires in December of 1990. This contract is very important to us, Mr. Chairman, because it allows all USDA agencies to move thousands of information items within a vast field structure. This is what our office automation and systems automation activities of the last several years have been about. Failure to adequately plan for this contract will have dire effects upon our programs. For example, without a successor contract the Farmers Home Administration county offices would not be able to access the loans data base at the National Computer Center at Kansas City; USDA agencies and other Federal agencies using the National Finance Center would not be able to transmit payroll, personnel, and other administrative data to that processing center. It is a testament to our successes in automation that the number of applications handled across the data transmission wires has grown dramatically. Since the inception of DEPNET in 1983-4, the volume of data transmitted has increased by over 600 percent. We have amended the DEPNET contract several times over the past few years, adding various features. Expenditures have risen from $7.6 million to a projected $40.5 million for fiscal year 1990. However, when the unit costs of DEPNET are tracked for the period fiscal years 1984-1990, they remain below the fiscal year 1984-85 rates. We are getting value for service. This increase will assure that the network that binds our administrative systems, our county offices, our computer centers and headquarters together not only remains operative, but will be adequate to meet the challenges of the next decade and beyond.

An increase of $125,000 for the Office of Advocacy and Enterprise will allow that office to implement its role as USDA's lead agency for the Small and Limited Resource Farmer Initiative (SLRFI). The Farm Credit Act of 1987 specifically charged this Office with this task. To carry out the mandate, the Office will develop Departmental policy and procedures for the SLRFI initiative. OAE will conduct reviews of State agencies' activities as they relate to FmHA programs, put on conferences for small or limited resource farmers, provide technical assistance, conduct training for agency personnel, and identify farm advocacy groups, rural cooperatives, and trade associations that will be of assistance to farmers targeted under the initiative.

A portion of these increased resources will be applied to continue administrative and program support of the Competition in Contracting Act that seeks to lower barriers to minorities and small businesses. Also, we intend to expand our outreach to Historically Black Colleges and Universities (HBCU's) to assist them in participating in the related programs of the Department, e.g. research grants, agreements, assistance and resources from USDA agencies.

An increase of $300,000 for the Office of the Administrative Law Judges is requested to handle the increased workload of that office, due primarily to passage of the Hunger Prevention Act of 1988. This Act requires hearings before an Administrative Law Judge to settle Food Stamp claims against State agencies. These claims have a direct bearing upon fund allocations to the States. Due to the new requirements, a formal process must be followed under the Administrative Procedure Act. This will require more case preparation time by all parties, setting forth rules of practice before the Administrative Law Judges, and formal transcription as judicial review will be based upon the record, not de novo hearings. Our current estimate is that the OALJ will handle 10 Hunger Prevention Act cases per year. To meet this workload increase, we will need an additional Law Judge, secretary, and a Hearing Clerk. Also funds are requested, as authorized by the Act, for the Judges to hire independent experts for their own use. This is to guarantee the impartiality of this process. The experts will assist the judges and conduct special analyses as required.

A net decrease of $260,000 for the USDA share of the National Communications System (NCS) as required by National Security Decision Directive (NSDD) 201. A study conducted for the NCS Council of Representatives has proposed a new funding allocation methodology and for long term funding of National Level Program (NLP) requirements of the NCS. Based on that allocation and taking into account contract slippage of work under the Nationwide Emergency Telecommunications Service (NETS) portion of the NLP, USDA's share of the fiscal year 1990 funding requirement was determined to be $2,000. NCS is proposing legislation to establish a surcharge on telecommunications services provided by vendors as a source of long term funding for development of various phases of the NCS. However, until the passage of this legislation, NCS will continue to be financed through agencies' contributions. The $2,000 requested is needed to pay our share and is shown as a separate line item.

RENTAL PAYMENTS AND BUILDING OPERATIONS

The larger of these two appropriations finances a portion of the Department's payment to the General Services Administration (GSA) for space and related costs. In fiscal year 1990, the Department requests $50,659,000 for its space inventory. The fiscal year 1990 request is $1,192,000 over the current fiscal year level of $49,467,000. This budget request also continues the retention of $3.0 million of the rental payment for non-recurring repairs as established by the fiscal year 1989 appropriations.

The Departmental staff and support services to operate and maintain the downtown Headquarters complex are funded through the building operations and maintenance appropriation. For fiscal year 1990 the request is $23,609,000, an increase of $2,312,000 over the current fiscal year level of $21,297,000. Part of this increase, $1,180,000, is for inflationary costs. Every year there are yearly pricing adjustments required by the Fair Labor Standards Act and the Services Contract Act. Also, there are other operating costs that will increase when operations and maintenance contracts are renewed. The second part of the increase, $1,132,000, is for the conversion of unused or underutilized space to special purpose or office use. Last year, we established a program to refurbish and bring on line attic and basement space in our South Building, which is now unoccupied or used mainly for storage. This increase would continue the conversion of this space and the movement of personnel and activities from non-GSA space. By doing this, we anticipate an ultimate "savings" or cost avoidance to the Government of approximately $30 per square foot converted. This "savings" would be due to no longer paying for more expensive leased space elsewhere in the Washington metropolitan area.

ADVISORY COMMITTEES

USDA Advisory Committees, other than those funded from the Forest Service appropriation or user fees, are funded from a single appropriation originally established by the Congress in the fiscal year 1983 Appropriations Act. The initial fiscal year 1983 appropriation was $1,398,000. The fiscal year 1990 request of $1,494,000 is the same level as the fiscal year 1989 appropriation. We propose to fund 36 committees under this level, including the National Commission on Agriculture and Rural Development. Within the fiscal year 1990 request, there are some adjustments among individual committees as follows: Three committees are to be eliminated and one reduced at a savings of $182,000; seven committees will receive programmatic increases totaling $131,000; new requirements and contingencies are taken into account with $26,000 earmarked for that purpose; and all remaining committees will receive inflationary increases of $25,000.

Fifteen of the Committees are established by statute and the remaining 21 are established by the Department, either independently, or upon recommendation of the Congress.

HAZARDOUS WASTE MANAGEMENT

One of the most serious challenges to the government is the safe, adequate disposal of hazardous waste materials. In the past, hazardous waste materials were often disposed of by means that created serious environmental problems. These past problems necessitate expensive cleanup programs. We in agriculture have, unfortunately, in the past contributed our share to the hazardous waste problem, especially in the area of groundwater contamination.

As part of the fiscal year 1990 budget there is an increased emphasis by the Department to play a more active role in protecting the Nation's ground water supplies. As a part of this thrust, our Hazardous Waste Management program is designed to promote USDA compliance under the requirements of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). Virtually all the projects identified by this program involve ground water contamination or have the potential for contamination if corrective action is not undertaken. The sources of contamination include leaking underground storage tanks, abandoned mining wastes, inadequate pesticide disposal, and releases from sanitary landfills or dumps. The funds provided for this program would allow USDA agencies to attack the problems posed by past hazardous waste disposal practices, including cleanup activities.

The requested funding for this program will assist USDA in meeting its goal of protecting our ground water resources. Not only will the funds allow us to comply with the various environmental laws, they will allow us to be responsible, good neighbors. For fiscal year 1990, we are requesting $25,688,000 for this program, to be available until expended. This would be an increase of $20,688,000 above the $5.0 million appropriated in fiscal year 1989. For the CERCLA requirements in fiscal year 1990, we are requesting $9.4 million more than last year to continue compliance with the CERCLA. Under the RCRA, the estimated cost of removing, cleaning up and replacing leaking underground storage tanks is approximately $11.3 million more than appropriated last year.

WORKING CAPITAL FUND

Mr. Chairman, it is now my pleasure to discuss both our accomplishments and our plans for the Departmental Working Capital Fund. As the members of the committee are aware, the activities supported by the Fund have enjoyed considerable success in providing both effective and efficient administrative support to USDA agencies and, more recently, to other governmental offices. In trying to balance the need to maintain a technological edge in data processing services against the reality of the tightening Federal dollar, we have learned important lessons in improving our products and services. We intend to apply these lessons to the management of the 17 activities supported by the Fund so that we can both maintain our standards of quality in fiscal year 1990 and do our part to realize the President's goal of meaningful reductions in the Federal deficit.

When I reported to you last year, Mr. Chairman, on the Fund's activities, I told you that an activity which would figure prominently in our plans for fiscal year 1989 was our National Computer Center concept. As you are aware, this initiative represents the efforts of many people in our information resources management establishment in USDA. Consolidation of the computer centers managed in Kansas City and Washington into the National Computer Center/Kansas City in fiscal year 1988 was an herculean task. I believe that the record of performance of that center since the consolidation indicates that the decision to go forward with consolidation was a wise one.

In fiscal year 1989, we expect to reduce the unit cost of on-line service at this Center by about 25 percent from the 1988 transition year, and by another 11 percent in fiscal year 1990. Put another way, Mr. Chairman, we expect to reduce real dollar costs of ADP services at this Center by 8 percent in fiscal year 1990 from fiscal year 1988 levels.

The National Computer Center/Fort Collins has also flourished in the new configuration. In addition to its ADP support for Forest Service, Soil Conservation Service, and Agricultural Conservation and Stabilization Service programs—the primary areas of activity for this Center—NCC/Fort Collins has pursued other initiatives with far-reaching applications in USDA. These initiatives will be further developed in fiscal year 1990. Among these include an expansion of services provided under a cross-servicing agreement with the Bureau of the Census, integration of all major computer architectures of the Farmers Home Administration, development of a geographic information system to improve the geographic information processing capabilities used by many USDA agencies, and the Open Systems Interface Compatibility Project which will have applications to the data base management, statistical operations, and local area network activities administered by the Center.

The National Finance Center continues to build on its reputation as one of the most efficiently managed administrative service operations in the country. In fiscal year 1988, the Center moved further toward an "all electronic" transaction processing environment. Electronic remote data entry, front end edits by submitting offices, remote access to a variety of reports, remote direct access to administrative systems, the availability of a number of subsystems, and a commitment to micro-systems development have maximized cost effectiveness and minimized the number of transaction errors of the many administrative systems managed by the National Finance Center.

As the pioneer activity for cross-servicing in the Fund, the Center has continued to expand its reach, thereby further minimizing the costs paid by USDA agencies for administrative services. For example, in fiscal year 1989 payroll/personnel costs, as measured in terms of the cost of payrolling 1 FTE for 1 year, would be 17 percent higher in the absence of cross servicing activity. The Thrift Savings Plan program, a special cross-servicing activity administered by the Center as part of the Federal Employee Retirement System, has enabled USDA agencies to avoid costs as well. Without this activity, transaction costs at the Center paid by other users would be 2-3 percent higher.

In fiscal year 1990, Mr. Chairman, we fully intend to hold the line on National Finance Center costs, particularly those paid by USDA agencies. Our budget request for the Center calls for a 6.8 percent increase in funding. However, this primarily represents further expansion of cross-servicing. Income from cross-servicing will rise from $15,637,000 in fiscal year 1989 to $17,084,000 in fiscal year 1990. USDA costs, in real dollar terms, will increase by only 2.5 percent in fiscal year 1990. This increase is in line with expected demand for services at the Center.

When we appeared before the committee last year to discuss the capital improvement program begun in fiscal year 1985, I stated that the Fund was in a much stronger position as a result of the actions taken by the Congress and USDA in providing much needed funding for capital acquisitions. That position remains strong today, Mr. Chairman, because we have made every effort to insure that the money provided by the Congress during this capital restoration effort is used in the most cost effective manner possible.

Activity centers supported by the Fund which are requesting funding for capital acquisitions in 1990 have already had those requests subjected to detailed lease-purchase analyses to determine which purchases would have the greatest potential benefit to the Fund. On the basis of planned acquisitions and a total capital availability of $23,985,000, we anticipate that we would avoid $8,389,000 in lease costs over the useful life of the equipment purchased, which for ADP equipment is generally five years.

Mr. Chairman, I have given you a brief overview of our most visible initiatives for fiscal year 1990. However, this does not diminish the importance or the accomplishment of other activity centers supported by the Fund. Central administrative services, including mail, supply management, and property management; audiovisual services such as video and teleconferencing, and visual design services managed under the Assistant Secretary for Governmental and Public Affairs; and other services such as ADP support to Departmental level offices; and telecommunications services continue to provide essential support to our agencies in their basic program missions.

The effectiveness of activity management has also been well served by the coordinated oversight mechanisms we employ to review Fund operations and finances. The WCF Comptroller—a position established in 1982—tends to the day-to-day responsibilities of managing Fund finances. The Working Capital Fund Interagency Review Board, comprised of seven program agency representatives and a permanent representative of the Departmental budget office, insures that the agency perspective will be an important part of Fund management. Finally, in my role as the official with ultimate responsibility for the integrity of the Fund, I will continue to administer these activities with the aim of cost effectiveness and service quality in mind.

Mr. Chairman, in light of the needs of our user community for administrative service support in fiscal year 1990. I believe that the request for $144,313,000 in recurring operations and $23,985,000 in total capital availability, including $3,750,000 in appropriated support, is a funding level consistent with both our needs and prudent financial management.

This concludes my prepared remarks, and if the committee has any questions pertaining to our request, I will be happy to answer them.

OFFICE OF TRANSPORTATION

STATEMENT OF MARTIN F. FITZPATRICK, JR., ADMINISTRATOR

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you today. With me are Dr. Wesley R. Kriebel, my Deputy Administrator, and Michael C. Cregoire, Acting Director of the Budget and Accounting Division, Animal and Plant Health Inspection Service (APHIS). APHIS provides budget and other administrative support for the Office of Transportation.

PROPOSED FUNDING DECREASE

We believe that the Office of Transportation—OT—has provided significant contributions to American agriculture since its formation in December 1978. To reduce the Federal deficit, it has become necessary to make difficult choices. Accordingly, the budget proposes to reduce OT's funding from $2,397,000 to $1,395,000. This funding level would allow OT to continue mandated activities including USDA representation before Federal and State regulatory bodies with respect to rates, charges, tariffs, practices, and services and the administration of the Agreement on the International Carriage of Perishable Foods. We would also continue to provide a limited amount of technical assistance on transportation matters.

AVENUE TO NATIONAL AND INTERNATIONAL MARKETS

I would like to take a few moments to give you my perspective on the importance of agricultural transportation to the American farmer and to the rural community in providing access to jobs and services.

The farmer's ability to transport products overseas and to domestic markets is being hampered by a deteriorating infrastructure of rural roads and bridges, abandonment of rural rail lines, and by what I term as gaps in service. These agricultural problems are felt by all Americans through higher transportation costs and delays in moving farm products to markets. Last year,s drought with grain barges stranded in the Mississippi River during the summer, and the shortage of grain cars last winter has shown us that we can never take rural transportation for granted.

RURAL ROADS AND BRIDGES

One of rural America's main avenues for transporting products is our system of rural roadways and bridges. In recent years, lack of funds and other factors have contributed to a steady deterioration of this pathway, forcing many producers to adopt more costly transportation alternatives.

DEREGULATION

Besides the infrastructure of roads and bridges, our farmers' ability to move production and the mobility of rural residents are intimately tied to America's transportation industries. The deregulation of bus lines, trucking, and railroads has had a mixed impact on the economic efficiency and social fabric of rural America. In many cases, the smaller shippers and the average rural resident have faced new problems even though large agricultural shippers have benefited from economies made possible through deregulation. Railroads have, in some cases, abandoned marginally profitable lines and have instituted procedures to minimize the time rail cars are not actually carrying loads. The result is that many agricultural areas have lost their only rail link to markets and some farmers have even been unable to find a railroad which can supply cars. On the whole, deregulation has been good for the country, but these gaps in service must be addressed Our goal is to make deregulation work for American agriculture and rural America.

Deregulation has also resulted in a loss of bus transportation for many rural Americans. This is due to bus companies abandoning many rural lines which they view as unprofitable. This has affected thousands of rural Americans who have been left without access to non-farm jobs, including farmers and many types of specialized services, including medical care. Again, I want to stress that our aim is not to condemn deregulation, but to emphasize the special problems it can cause for rural Americans.

EXPORT BARRIERS

The problems I have spoken of are domestic, But one of our greatest challenges is to develop and maintain efficient mechanisms to ensure the smooth flow of American agricultural products to foreign markets. As we have seen in recent years, the world economy is becoming increasingly tied into one global trading network, Clearly, transportation is one of the crucial factors that could spell success or failure for an export venture. Some foreign ports are simply incapable of handling the types of ships which transport American commodities. Shipping techniques often differ for the longer international trips, our shippers may be unfamiliar with the requirements, or the technology available may be too expensive. The key point is that our efforts to increase exports will not succeed if we cannot transport our agricultural commodities efficiently.

IMPORTANCE OF TRANSPORTATION

Mr. Chairman, last year's drought made us all aware of the importance of reliable and cost effective methods of getting agricultural production from the farmgate to domestic and overseas markets. The global economy offers many options to the consumer. If the American farmer can't deliver the goods on time, the Argentine or Australian producer can. OT's major role has been to raise awareness, evaluate trends, and offer individual assistance for specific problems. I would like to report briefly on some of our most recent accomplishments.

RECENT ACCOMPLISHMENTS

We have focused our efforts on the major problems I have mentioned. In one case, OT helped Ohio farmers realize significantly lower rates on hay in drought stricken counties, In response to the grain car shortage last winter, we provided timely and detailed information on the capacity of the U.S. rail car fleet, the demand for rail transportation of grain, and the magnitude of shortages in affected areas.

In the area rural roads and bridges, we conducted a follow-up study to the 1987 Congressional report on highway financing and completed a cooperative study on financing rural bridges and roads from the perspective of State and local governments. OT continued its work with USDA's Forest Service to demonstrate uses of contemporary timber bridges as a cost effective method of replacing worn-out rural bridges. In this regard, OT helped to plan and has participated in four timber bridge projects in Pennsylvania, Colorado, West Virginia and Wisconsin. Demonstration bridges were built in conjunction with three of these projects.

We placed a great deal of emphasis on addressing the service gaps I referred to earlier. During the last two years, OT has led an effort called "Reconnecting Rural America" in conjunction with the U.S. Department of Transportation and the United Bus Owners of America. We held three regional meetings to gather grassroots information from providers and users of rural bus transportation. The regional information formed the basis for a national conference held last August in Omaha, Nebraska, where leaders from public and private organizations came together to develop recommendations for a national strategy on reconnecting rural America, This final document is being prepared by OT and will serve as the basis for policy development and program planning at the national, State, and local levels, OT also prepared a handbook that summarizes useful information on rail line abandonment which will aid State and local governments interested in available options to maintain local rail service.

In fiscal year 1988 we continued our activities in the international area as part of the effort to enhance exports. OT completed a report outlining constraints to U.S. agricultural exports through Pacific Rim ports. The report was prepared by a team that visited 15 ports in China, Japan, Korea, the Philippines, and Taiwan, and showed that inadequate facilities and obsolete or poorly maintained equipment were major trade restraints as well as many food import and maritime policies that discriminate against American producers and carriers. The report will benefit agricultural exporters who plan to import products into those ports.

OT also provided a variety of technical advice to American exporters, such as assisting California citrus exporters in working with shippers to modify certain costly shipping requirements. We distributed 10,000 copies of three handbooks containing technical information on proper loading, packaging, and transportation of agricultural products for export; we also continued to coordinate the transportation of grain to Mexico.

Mr. Chairman, it is difficult for an Administrator to recommend large cuts in the agency he is responsible for, but I understand that the importance of our National priority is to maintain a strong economy and reduce the budget deficit. OT will continue to conduct mandated USDA activities and some technical support. We have developed a strong base of knowledge that can be used by others to help deal with the problems of rural and agricultural transportation.

Mr. Chairman, this concludes my statement, I would be glad to answer any questions.

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF JAMES R. DONALD, CHAIRPERSON

Mr. Chairman and Members of the Committee, it is pleasure to appear before you today to discuss the fiscal year 1990 budget request of the World Agricultural Outlook Board.

OVERVIEW

The World Agricultural Outlook Board (WAOB) plays a critical role in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system responds to today's rapidly changing world agricultural sectors. The purpose of the WAOB is twofold: to provide the most accurate, objective, and timely economic intelligence on worldwide developments which influence U.S. agriculture; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB maintains liaison with international organizations, such as the World Meteorological Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessment; these monitoring and analytical activities within USDA are coordinated by the WAOB Chairperson. Remote sensing activities in USDA also are coordinated by the WAOB Chairperson. Remote sensing has the potential to improve the accuracy and timeliness of crop estimates.

SPECIFIC FUNCTIONS AND PROGRESS

WAOB chairs the Interagency Commodity Estimates Committees (ICEC's) and seeks to assure that information from the Department's world agricultural intelligence system is fully integrated into the analytical process. The ICEC's include representatives of the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization, and prices for the major agricultural commodities. It is through these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance are ongoing responsibilities of each committee.

Weather, as much as any economic or policy development, continues to be a significant and most unpredictable variable underlying agricultural production and prices. Consequently, USDA places a high priority on incorporating weather-based assessment information into all analyses. The focal point is the Joint Agricultural Weather Facility (JAWF), operated jointly by the WAOB and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, continually monitors and assesses global weather events and their probable impact on agricultural output. JAWF briefings, reports and special alerts are key inputs to ICEC and WAOB deliberations.

The Weekly Weather and Crop Bulletin and electronic networks are the principal means used by JAWF to disseminate meteorological assessments to the public. JAWF's early warning capability diminishes the likelihood that USDA policymakers, farmers and other participants in the agricultural system would be caught off guard by a foreign crop failure or some other significant global weather-related event. The Weekly Weather and Crop Bulletin is widely recognized as a prime source of reliable domestic international crop and weather information.

The World Agricultural Supply and Demand Estimates report (WASDE) is published by WAOB. WASDE is a monthly report which is released on the same day as the U.S. Crop Production report. WAOB has tailored this report to respond to end-use needs for global crops and domestic livestock situation and outlook information on a timely basis. WASDE presents aggregated global supply and demand data for all major agricultural commodities and shows detailed production, trade, utilization and stocks forecasts for the United States and for principal U.S. competitors and markets.

WAOB recognizes the need for rapid information dissemination. Increasingly, improved technologies are being used to speed the flow of information. The principal objective is to place the World Agricultural Supply and Demand Estimates report into the hands of farmers and other users as quickly and effectively as possible. WASDE is now transmitted electronically upon release at 3 p.m. to a central USDA system that can forward it to all interested users, greatly broadening the potential for report dissemination. Also, the report summary is now being sent electronically to our embassies and trade offices around the world to keep U.S. agricultural attaches, counselors, and trade representatives current with the very latest information on U.S. supplies and prices.

The Agricultural Statistics Board (ASB) of the National Agricultural Statistics Service (NASS) and the WAOB are co-located in a single lockup facility to maximize security conditions for compilation and analyses of world crop data and supply/demand estimates. This physical arrangement with the ASB facilitates interaction between domestic and international analysts.

RECENT ACTIVITIES

WAOB continued to publish the monthly World Agricultural Supply and Demand Estimates (WASDE) report which presents estimates of global supply and use for grains, oilseeds and cotton and U.S. supply and use estimates for red meat, poultry, eggs and milk.

The Joint Agricultural Weather Facility (JAWF), operated by the WAOB and the National Oceanic and Atmospheric Administration, continued to jointly publish with NASS the Weekly Weather and Crop Bulletin (WWCB). The WWCB summarizes global weather developments and assesses the potential impact of these events on agricultural production.

WAOB recognized the potential severity of the 1988 drought early in the crop cycle, developed sound methods to estimate its impact on yields and issued estimates of U.S. crop production before USDA survey-based forecasts were available. JAWF developed alternative drought yield impact scenarios for the Interagency Drought/Yield Assessment Committee and for input to USDA yield models. WAOB's crop projections in July brought relative calm to unstable commodity markets. These early season projections were vital to the timely preparation of drought-relief measures by USDA and Congress.

For each WASDE and Crop Production report, WAOB prepared special press information packages which highlighted these reports throughout the drought period. Drawing on the technical and analytic support of the JAWF, the WAOB Chief Meteorologist served on the President's Drought Task Force. He issued daily assessments of drought developments and served as a USDA spokesperson for the media. The Chief Meteorologist briefed the Vice President, the Secretary of Agriculture, the Assistant Secretary for Economics, committees of Congress, and others as requested.

With strong support from the Secretary and Assistant Secretary for Economics, the Board acted to provide the basis for strengthening USDA long-term commodity projections. Agency responsibilities for long-term projections were clarified and the first interagency agricultural projections committee was created. This committee is chaired by the WAOB. Increased interagency input needs to be applied to long-term commodity projections that underlie the President's budget.

WAOB achieved substantial success in promoting and facilitating interagency cooperation in the preparation of global sugar supply/demand assessments. Under leadership, USDA published a complete world sugar data base for the first time since 1981. With the assistance of the Foreign Agricultural Service, the Economic Research Service expanded the Sugar and Sweetener Situation and Outlook report from three issues per year to four. For the first time, the outlook includes complete world sugar supply and demand tables, updated on a quarterly basis.

USDA and the Commodity Futures Trading Commission (CFTC) acted to strengthen their liaison activities by significantly increasing information exchanges. Market information is shared through informal contact between staff in both agencies and USDA economists formally participate in CFTC's weekly closed market surveillance briefing. USDA's input to this activity is coordinated by the WAOB.

Under WAOB leadership, the Remote Sensing Coordination Committee continued to serve as an effective vehicle for the exchange of information among USDA agencies concerning remote sensing programs, technology, and related budgetary matters. The Remote Sensing Coordinator, a Board member, represented Departmental interests in numerous interagency remote sensing activities and apprised USDA agencies of significant developments in remote sensing programs and technology.

WAOB coordinated and directed USDA's 65th Annual Outlook Conference (November 29–December 1, 1988.) More than 80 speakers and 1,100 registrants participated in the 2½-day program which focused on market opportunities for agricultural products, the 1988 drought's impact on agriculture, and farm policy directions for the 1990's.

BUDGET REQUEST

Our total budget request for fiscal year 1990 is $2,045,000. This represents an increase of $225,000 above the fiscal year 1989 level of $1,820,000. This net increase consists of $135,000 for weather monitoring and analysis of weather's impact on U.S. crops, $85,000 to lead USDA's longer-run outlook and projections work, $30,000 for USDA remote sensing evaluation, and a decrease of $25,000 in general operating expenses.

Funding is requested to expand coverage and prepare improved crop yield assessments for the United States. An additional agricultural meteorologist is needed to monitor U.S. weather and prepared related crop impact assessments. This initiative will require development of a substantially larger U.S. weather and crop data base.

In January 1988. the Secretary of Agriculture directed the Assistant Secretary for Economics to take those actions needed to insure that the best expertise and analyses of the Department are incorporated into USDA's long-range commodity supply/use and related sector projections. An additional agricultural economist is needed to coordinate interagency input to this activity and to monitor, evaluate and improve the Department's performance in this area.

Funding is requested to inventory and document, with contractor assistance, USDA-wide remote sensing activities. This proposal is aimed at identifying high priority areas and at avoiding costly duplication among USDA remote sensing projects currently funded at $26 million.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning the WAOB programs and budget request.

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, APRIL 13, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:38 a.m., in room SD-124, Dirksen Senate Office Building, Hon. J. Robert Kerrey, presiding.

Present: Senators Burdick, Harkin, Fowler, Kerrey, Specter, and Grassley.

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

Senator KERREY. The subcommittee will come to order.

Ladies and gentlemen, this morning we continue our hearings to review the 1990 budget for Agriculture, Rural Development and Related Agencies. We begin today to hear from nondepartmental witnesses, a very important part of the hearing process because we will hear from members of the public on how the programs funded by this subcommittee affect their businesses, industries, and everyday lives.

I welcome all the witnesses today, and I would like to remind you that your written statements will be kept in a file by the subcommittee and will not go into the official transcript. The oral comments will be a part of the transcript. Nevertheless, the written statements will carry the same weight as the oral comments. The subcommittee is taking this measure in order to reduce printing costs.

The witnesses are asked to limit their comments to 5 minutes, and a clock is provided, so I will appreciate your efforts to finish by the time the light turns red.

The first witness this morning is the Senator from Missouri, Senator Kit Bond. Senator, we welcome you here this morning.

CONGRESSIONAL WITNESS

STATEMENT OF HON. CHRISTOPHER S. BOND, U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you very much, Mr. Chairman. I sincerely appreciate the opportunity to testify before you and this subcommittee. As a new member of the Budget Committee, I have some idea of the difficulty of allocating scarce resources, and I commend you for the very difficult task that you have in front of you.

We do have a number of items that are outlined in more detail in the written statement, and I thought I would just touch on some of the high points of the projects in which we have a particular interest.

First and foremost, last year I joined my colleague from Illinois, Senator Alan Dixon, as cochairs of a new Congressional Corn Caucus. There are a number of issues that are extremely important to corn growers, processors, and users. But there are few things more exciting, or of more potential for this country, for the corn production, for the environment than biodegradable plastics.

We have seen in practical applications that biodegradable plastics can do a great deal to limit the danger to our environment from the use of plastics. We use a great deal of imported oil to produce traditional plastics. We now produce something that will stay in landfills in its present form for 200 to 400 years. Right now, although plastics make up only about 7 percent of the weight of the material going into solid waste landfills, they comprise 31 percent of the volume.

My home State capital, Jefferson City, has recently completed a 3-month trial using biodegradable plastic trash sacks. From the user standpoint, this was very successful, and we hope to see many wider uses for these biodegradable plastics.

But quite frankly, we need to know more about them. Larger users need to know just how long it will take these products to degrade, what kinds of formulations are needed to ensure the proper strength of the plastics, whether they be trash sacks, diapers which hold a great potential, or fast food containers.

It has been estimated that if we can develop a good market for biodegradable plastics, in addition to making a major improvement in our environmental concerns as they relate to solid waste disposal, we could increase the use of corn by some 150 to 300 million bushels. Using a multiplier of 5 cents per 100-million-bushel increase in the price, the price of corn could increase by about 12½ cents per bushel. This correlates to over $700 million in potential savings in commodity payments in deficiency payments.

Although degradable plastics appear beneficial, there is a definite need of resources to perform additional research. Therefore, we are requesting a fiscal year 1990 appropriation of $3 million and recommend that the competitive grants, which will be administered under the Cooperative State Research Service, include a 25-percent cost-share requirement. The cost-share requirement will ensure that the people who are presenting these programs really believe in them that they have to come up with a little money.

My second area of interest regards the expansion of agricultural trade. The State of Missouri, the University of Missouri, and the Department of Agriculture have been developing plans for a Center for International Trade Expansion. The modest proposal that we have for this program is for Federal funding of $1.38 million over a 5-year period, $325,000 for fiscal year 1990. These funds will be matched by the Missouri State government and by private sources.

A third item of priority, one that is extremely important to all of us involved with agriculture, is the Food and Agricultural Policy

Research Institute. I express sincere appreciation to the subcommittee and to the full committee for having provided funding for FAPRI through the Cooperative State Research Service. This is an organization which can give us the econometric models for assessing how various changes in farm programs will affect farmers and the cost to the Government.

No question about it. With the 1990 farm bill coming and the need to reduce spending, there are already many, many proposals on the table. Their workload is going to increase significantly as we call on them to help us decide how agriculture can best utilize the scarce resources available. Therefore, I request that FAPRI's funding be increased to $750,000, or three-quarters of a million dollars, for fiscal year 1990.

Finally, I wish to express my support for a new project entitled Technical Barriers, Quality Factors and End Use Characteristics in Agricultural Trade. The objectives of the project include identifying and analyzing constraints related to end use characteristics in trade; second, design production and processing techniques to lessen their impacts; and third, identifying public policy alternatives nationally and internationally that lessen the impacts of these restrictions.

We have all been very concerned about the beef hormone ban imposed by the European Community. This shows how technical barriers with arguable health benefits, although we think in this instance phony health benefits, are used as technical barrier to trade.

The University of Missouri and North Dakota State University have developed a 5-year program to address this emerging area of trade analysis. The proposal calls for a special grant of $2.2 million over 5 years, or $400,000 in fiscal year 1990, through the Cooperative State Research Service.

Mr. Chairman, I commend you for the difficult task you have facing you and the members of this subcommittee. I would be happy to answer any questions that you might have and look forward to working with you and your staff in the months ahead on these projects.

Senator KERREY. Thank you, Senator. I have no questions other than to tell you that, of the four that you mentioned, I am very familiar with FAPRI. And I certainly share your enthusiastic evaluation of their work. I have used their reports a lot. They are to my mind a most reliable and most useful source of information about the impact of a variety of farm policy proposals. And they need to be fully funded. So, you will certainly get my support on that one.

The other two I will look at, and I am sure the full subcommittee will as well. And I appreciate your bringing them to our attention.

Senator BOND. Mr. Chairman, I assure you that we will take the record of this hearing and send it back to our friends at the university who do work hard and have run into a number of challenges in the past. My associate, my legislative assistant for agricultural policy, Dan Cassidy, who is with me here today, worked in getting his masters degree with FAPRI. We find that the FAPRI analysis is the best thing to give us some guidance in the very complex interrelationships involving agriculture. And it is tough enough to handle these programs with their analysis. Without them it would be almost impossible.

I know on behalf of Professor Womack and the others at Iowa State and the University of Missouri, they sincerely appreciate your kind comments.

Senator KERREY. Another observation I should pass on to you, Senator, is one that I made earlier to USDA when they were presenting their entire budget, and that was that we spend about $6.5 billion on efforts to open up export markets. I think that is good. I think the loan programs and the targeted export assistance and the export enhancement programs have been extremely useful and are recapturing market share.

However, we allocate approximately $900,000 to domestic market development, even though last year we imported 21 billion dollars' worth of food products from foreign countries. It seems to me that one of the baseline arguments that this committee is going to have to pay attention to is whether or not we should allocate some percentage of overall market development funding for domestic efforts, several of which you have described in your testimony, to open up and develop our own domestic marketplace. And I consider biodegradable plastics one of the ways that we can do that.

Senator BOND. Mr. Chairman, I share your concern and interest in this area. We have devoted hundreds of millions of dollars, I guess billions of dollars, to research in improving productivity. But as you look at it, the dollars which we have used to develop new uses for agricultural products and new agricultural products, Kenaf, Guayule, Crambe, high-erucic rapeseed, milkweed, meadowfoam, and others which can provide great incomes for farmers and boosts for rural communities, have received far less funding.

I won't take your time now, but I will talk to you later about some of these exciting alternatives. I share your concern over that problem, and I look forward to working with you on some of those initiatives as well. We have a tremendous opportunity. I appreciate your leadership in identifying this as an area for increased attention.

Senator KERREY. Thank you, Senator.

Senator BOND. Thank you, sir.

Senator KERREY. Senator Hatch.

Senator HATCH. Thank you, Mr. Chairman.

Senator KERREY. It is good to have you here this morning.

CONGRESSIONAL WITNESS

STATEMENT OF HON. ORRIN G. HATCH, U.S. SENATOR FROM UTAH

Senator HATCH. Thank you. It is good to be here with you. I appreciate the attention, and I am pleased to have the opportunity to testify before your subcommittee regarding the future effectiveness of the Food and Drug Administration.

Frankly, we need more funds so that Americans are assured safe food, safe and effective medicines and medical devices, and safe cosmetics.

Congress created the FDA in 1938 so that Americans would not have to worry about the food that they eat or the drugs that they take. And, as we enter the next 50 years of FDA, I believe we are really going to have to examine carefully the state of the FDA and make necessary changes to assure its ability to accomplish its mission.

Now, today the FDA is responsible for the regulation of 90,000 businesses and over 25 percent of America's total consumer goods. These responsibilities include inspecting our Nation's blood supply to guarantee that it is not tainted with the AIDS virus. The FDA also determines the level of pesticide residues acceptable in apples and other foods. It is empowered to take enforcement actions against those products that do not meet the standards established, such as the recent case of tampering with imported fruits. And, these are only a few of the major responsibilities of the FDA today.

Now, I wonder if the creators of the FDA in 1938, concerned with the regulation of tonics and elixirs, had any idea of the technological complexities that would be facing the agency just 50 years later. Who would have imagined that the FDA would be regulating a burgeoning biotechnology industry, or that the FDA would receive over 15,000 drug review applications each year?

When the FDA was established 50 years ago, microwave cooking did not exist. Today, however, the FDA is concerned with the safety of glues and resins that hold microwaveable packages together. Fifty years ago food processing was in its infancy. Today, the agency has to conduct surveillance of over 67,000 food processing plants.

We as Americans can be very proud of the technological progress that we have made over the past 50 years or even the past 10 years. At the same time, I think we have to consider whether we are allocating enough resources for the Food and Drug Administration to accomplish its mission in what really is an effectively changed world.

The FDA has to keep pace. A review of the current state of the FDA reveals that its resources have been far outpaced by the growth of the technologies that it regulates. The resulting lack of adequate resources has had a negative impact on FDA's ability to really perform its broad mission.

For instance, as you can see, the medical devices is the purple. And you can see it went to a high around 1978 of 8,179 employees. It has dropped down to a little bit below 7,000 today, even though the obligations have risen.

The red part represents the employees who are working on the AIDS virus. And since they have the responsibility of taking care of the Nation's blood supplies, among other things, not even counting the pharmaceutical matters, you can see that that is woefully inadequate for the problems that we have.

The blue represents the Freedom of Information Act employees who work on the applications for Freedom of Information. You can see how small they are, but we have just a little bit more working on AIDS than we have working on Freedom of Information.

And the green is, of course, the abbreviated new drug application and patent law people who are working at FDA.

As you can see, instead of continuing to go up to meet the needs of our very expansive society, we actually have been losing people at FDA, and a lot of that has to do with a whole variety of factors, including pay rates.

As you can see from that chart, FDA does have almost 1,000 fewer employees today than it did just a decade ago in spite of the fact that, as I've said, these responsibilities of the agency have increased dramatically.

In fact, since 1980 the FDA has been given responsibility for 23 new and important programs. Some examples of these are the Drug Price Competition and Patent Term Restoration Act of 1984, the so-called Hatch-Waxman bill or Waxman-Hatch bill; the Vaccine Compensation and Research Act of 1986, which was in our omnibus health bill at that time; the Generic Animal Drug and Patent Term Restoration Act of 1988, which you helped us pass this last year; and the Orphan Drug Act of 1984. We now have 260 new orphan drugs that have exploded since we passed that bill in 1984. A wonderful thing, but very, very difficult to manage.

It is my understanding that those four bills alone would require over 140 additional staff positions to be administered effectively. Implementation of the over 19 bills enacted in this area since 1980 would require no less than 350 people, and we don't have them. In fact, we are losing them because they can go out and make two to three times as much in the private sector what they make here.

I should note that these estimates do not take into consideration the additional workload placed on FDA by the AIDS epidemic. Mr. Chairman, this personnel deficit clearly makes it difficult for FDA to carry out our legislative directives. I ask the subcommittee to appropriate additional funds for more staff at FDA. We have a modest amount increase in this bill. I think it should be a lot more than that, but it is the best we can do this year.

In addition to a shortage of personnel, inadequate funding of the FDA has resulted in cramped, inadequate buildings to house its scientists and conduct critical regulatory work. As you can see from this chart, the FDA is scattered among 23 different buildings at seven different sites in the Washington area. And I can only imagine the additional administrative burdens that are placed on the agency in trying to coordinate such a geographically dispersed set of activities.

I personally believe that FDA should be consolidated into a single building, or at least a single campus, in order to meet the demands that are going to be placed on them and that are placed on them now. I am pursuing legislation to require this consolidation and ask the committee to appropriate funds for that purpose as well. However, I also believe that we have to call on the private sector to contribute financially to this consolidation. The legislation I will introduce, and I believe with the support of many of our colleagues, requires important safeguards to be put into place to avoid any potential conflicts of interest with respect to private sector support of a new facility.

Mr. Chairman, I mentioned earlier that the FDA receives over 15,000 drug review applications each year. In 15 years this number is expected to grow to 30,000 applications each year. On the average a new drug application is 100,000 pages long. Right now, because of the lack of data processing and computer equipment at the FDA, these applications are submitted on reams and reams of paper. As you might imagine, they fill shelves upon shelves in those 23 buildings. Now, were a representative from another country to visit the FDA's Parklawn facility, I think they would find it hard to believe that this was the agency responsible for approving most of the advanced medicines in the world.

The FDA does not have computer capacity to handle the applications for pharmaceuticals, medical devices, food products, or even biotechnology. Yet, with sufficient funds to invest in new technology, two new drug applications could be stored on one 5-inch compact disk that would fit in your coat pocket. The review of these applications could also be simplified through a computer network linking together FDA personnel.

So, I ask the subcommittee to add additional funds so that we can automate the FDA. Now, we are in the 20th century and with our 20th century scientific capabilities, I don't think we should rely on 19th century machinery, and that is what we are doing out there.

As ranking minority member on the Senate Committee on Labor and Human Resources, which has jurisdiction over the FDA, I plan to introduce a bill within the near future to revitalize FDA. This legislation is intended to enhance the FDA's ability to fulfill its mission. This bill will provide, among other things, the establishment of a senior biomedical science service to increase the pay of all of our senior scientists, retention of the fees currently collected for Freedom of Information Act requests, which is a modest amount, but nevertheless important, and it will authorize the training of personnel in regulatory review medicine and food technology, an area where we really need to work. In addition, the bill will also begin to move the FDA into more rapid computerization.

So, I also ask your help, Mr. Chairman, and of course, other members of this subcommittee, in this revitalization effort for the FDA. I urge you to appropriate a total of $562 million. That is an increase of $89 million over the current appropriation. These additional funds should be dedicated to increase manpower, a consolidated facility, and automation within the FDA for, if we are going to ask the FDA to give Americans confidence in our food supply, our medicines, medical devices, and cosmetics over the next 50 years, we in the Congress have the responsibility for giving FDA the resources to do this job.

We just simply have to do it. There is a certain demoralization out there. And yet, in spite of all these detriments, all these difficulties, the FDA still is the No. 1 regulatory agency in our Government, and I think it is without question that it is certainly the No. 1 food and drug and medical device regulatory agency in the world.

Mr. Chairman, I will be happy to answer any questions you have, but I appreciate this subcommittee for its efforts in the last term of Congress for passing really what were a number of provisions of the then FDA revitalization bill. Now, we are coming up with another one that, hopefully, will move us even further into the 21st century and help us to really protect our people in this country.

Senator KERREY. Thank you, Senator.

I do have one question, though before I ask it, I must compliment you. You or your staff I assume makes the best charts. [Laughter.]

I see your board has been used a number of times.

When Commissioner Young was here last week before the committee, he indicated that his original budget, prior to going through the Office of Management and Budget, was in excess of the $512 million that is the administration's current recommendation.

Also, the $512 million includes about 100 million dollars' worth of user fees. Do you hold an opinion on these user fees that are proposed to be included in this budget?

Senator HATCH. I would prefer to not go the user-fee route. I would prefer to have voluntary cooperation of the private sector. The FDA revitalization bill will set up a blind trust with a direct mandate to the Secretary to come up with a way of making it a nonconflict trust. That may be impossible to do, but we don't think it is.

I would prefer to have a voluntary effort by the community. If we should pass that legislation, I intend to go to that community and work on them very strongly. If they do not do it, then I think we are either going to have to provide an increased tax on the community or some sort of user fee in order to pay for this building, because it is apparent that with our budget difficulties, we just can't expect the Government to do it all.

I do think if we can get the blind trust going, then I'm for making the Government pay a significant percentage of the cost of upgrading the FDA. But if we don't have a voluntary effort, then I think we are going to have to come up with some innovative ways of getting the community to really do what is right for themselves, because we believe that we can reduce the time for new drug applications, especially significantly complex new drug applications, from approaching 120 months down to maybe as low as 31 months. Now, can you imagine what that would mean to this country?

For example, take the area of AIDS. If we could move rapidly on some of the new, innovative ideas in the area of AIDS alone, we might be able to save hundreds of thousands of lives, maybe millions of lives. If it is going to take 10 to 12 years to come up with major pharmaceuticals in that area, we are in trouble. Now, all of us are moving to push AIDS drugs through, but it is difficult to do that and do it safely without computerization and without all the tools that are necessary to accomplish that.

So, I would prefer not to go the user-fee route. But if the private sector is uncooperative, then it seems to me we are going to have to come up with some innovative way similar to that.

Senator KERREY. I think given your interest and work on it in the past, Senator, this committee will be looking to you to help sort out the issues surrounding the user fees. There was some concern expressed by other Senators at the hearing where the Commissioner appeared that smaller businesses, smaller startup businesses in particular, might face some difficulty with the user fee.

Senator HATCH. I think so.

Senator KERREY. At this point I personally hold no firm opinion since the issue is relatively new to me, although I have a historical connection to the pharmaceutical industry since prior to getting into politics, that was my profession.

Senator HATCH. Well, what I would like to do is call upon the private sector to help us come up with the ideas that would be the most acceptable to them. We can come up with a blind trust that literally does not involve conflicts of interest. I would do almost anything to centralize the FDA, because I think if we don't it is going to be one of the biggest problems we have in this country from safe food supply, safe pharmaceutical supply and medical device use, and cosmetics.

A lot of people don't realize that 25 percent of all consumer products go through the FDA, and they are the important products that mean quality of life for our people. We just can't afford to let this deteriorate.

Right now if you were to go with me out to FDA and go through their best facilities, I think it would surprise you. You may have done that. It surprised me when I went out there. I thought how in the world can they ever get their work done under these circumstances. They are the most depressing circumstances for people who are as proud and competent as I have ever seen.

So, I am calling on the private sector to help us. I did call upon PMA at a major meeting and asked them to see what they could do. Thus far, we haven't had any significant breakthroughs on how to handle this, but we are open. I think that the best way will be a public-private cooperative effort to do this and maybe we have to just sit down, work it out and come up with an approach that really doesn't make it difficult for the smaller businesses in this country, but really brings this to pass for the benefit of everybody.

If I were sitting as the head of any number of our major pharmaceutical institutions in this country, I would be champing at the bit to get new drug application times down to 3 years from the present 10, and probably from $80 million for a major new drug application down to a significantly lower price, something that would be worthwhile for my investing in helping FDA to be brought up to speed.

I believe we could get foreign companies who would be glad to contribute because they also use the services of FDA.

Senator **Kerrey**. Again, not through my efforts on this committee, but because of my prior work, I do understand the importance of the FDA. And I would just urge you, Senator, to talk to Senator Burdick who in questioning Commissioner Young, obviously understood the issue and is very supportive of Commissioner Young in trying to sort these things out. And I think you could help provide this subcommittee with a lot of guidance that would be particularly useful in resolving the concern that I know, after listening to your presentation on the minimum wage, you have for small businesses. You have, in fact, a company in Utah called Native Plants that does some cooperative research with the University of Nebraska. They are not startup anymore, but they are relatively small, small relative to Eli Lilly or Abbott or Upjohn or Parke-Davis, some companies like that. The concerns seemed to be centered upon not setting a user fee that might obstruct these entrepreneurial companies' entry into the marketplace.

So, I look forward to working with you. I think you could provide a very useful service to this subcommittee as we try to sort out those issues.

Senator **Hatch**. Well, I will certainly do that, and we have asked Senator Kennedy and his staff to work with us, and they are providing a lot of help. And, together with other members of our committee, we will work with yours.

I just want to thank this committee for your support in the past and Senator Burdick in particular, but all of you, because frankly, we made a lot of headway last year as a result of stands this committee took, and it wasn't easy for you. You can count on me to do everything I possibly can to be of assistance.

I am going again to make one more plea to the private sector to come up with some ideas, or we are just going to have to make the best decisions we can. And we will try to do it in a way that literally will not be onerous and burdensome to small business, but will be fair to the businesses.

Senator KERREY. I must also tell you of my great admiration for and the excitement that I felt listening to the presentation that Dr. Pons made last week about his rather exciting discoveries. You and the citizens of Utah I am sure are quite proud of him and the University of Utah for what appears to be a major research breakthrough that could, in the long-term, be of great, great benefit to the country and the world.

Senator HATCH. Well, thank you. I will take that back to him and Dr. Fleischmann as well.

We are really proud to say that there are two universities out there, both of which have broken through on this issue. The University of Utah has a really significant find here because they have had their energy exponential go up four times.

But there is another significant find by Dr. Jones down at Brigham Young University. They know that he has actually broken through on fusion. We are not sure that the other is fusion, but we believe it to be. We just have to wait and prove it. It is certainly an increase in energy that is significant. The problem with the BYU one, as I understand it, is they haven't had quite the increase in energy, but they are pretty sure that they have maybe cracked at least through to a degree on the issue of fusion.

So, I will take that back to both of them and tell them how interested we all are back here. I appreciate your interest.

Senator KERREY. My background is chemistry, and my sympathy is for the chemist not for the physicists. [Laughter.]

Senator HATCH. I have to tell you that my background is law, and I'm going to bat for both of them.

Senator KERREY. Thank you very much, Senator.

Senator HATCH. Thank you.

Senator KERREY. We welcome, Senator Harkin.

Senator HARKIN. Glad to be here, Mr. Chairman.

Senator KERREY. Do you have anything you want to say as an opening?

Senator HARKIN. Not at this time.

Senator KERREY. The next witness that we have on the docket here is the Consortium from the University of Nebraska-Lincoln, Mississippi State University, the University of North Dakota, and Valmont, Inc.

UNIVERSITY OF NEBRASKA, MISSISSIPPI STATE UNIVERSITY, UNIVERSITY OF NORTH DAKOTA, AND VALMONT, INC.

STATEMENTS OF:

DR. WILLIAM SPLINTER, ASSOCIATE VICE CHANCELLOR FOR RESEARCH, UNIVERSITY OF NEBRASKA

DR. PETER JENKINS, DIRECTOR, NEBRASKA ENGINES CENTER, UNIVERSITY OF NEBRASKA

MICHAEL D. MANN, RESEARCH SUPERVISOR, COMBUSTION AND ENVIRONMENTAL SYSTEMS RESEARCH INSTITUTE, ENERGY & MINERAL RESEARCH CENTER, UNIVERSITY OF NORTH DAKOTA

Dr. **SPLINTER**. Senator Kerrey, for the record, and Senator Harkin, I am William Splinter, associate vice chancellor for research, the University of Nebraska. I have with me here today, Dr. Peter Jenkins who is head of our Mechanical Engineering Department at the University of Nebraska and also is the director of our Engines Center. And I also have with me Dr. Michael Mann who is the research leader at the Energy & Mineral Research Center at the University of North Dakota. Dr. Ralph Powe, who was with us yesterday, could not join us today from Mississippi State University.

We are discussing with you today a proposed consortium between the University of Nebraska, the University of North Dakota and Mississippi State University to take over the development of the Stirling cycle engine which Valmont Industries has spent about $9 million in developing to date. They are currently operating with a $350,000 appropriation from last year to prove the feasibility of the use of this engine in combusting wood chips.

The engine is a stationary engine as opposed to the MTI engine which you may be familiar with which is the other Stirling cycle engine. This engine is a stationary engine and is intended for utilization of indigenous fuels that might be available in agriculture or in other operations.

As you are very well aware, the State of Nebraska is second only to California in total irrigated acreage in the United States. With our 7 million acres of pumped irrigation, we are consuming about 210 gallons of diesel fuel per acre, which at $1 per gallon amounts to about $210 million per year.

With the recent increase in the price of diesel fuel that farmers are going to experience with this Valdez problem—I bought diesel fuel in Lincoln last Saturday at $1.13 a gallon. This is the time that the spring work is starting and the farmers are going to be hit with about a 10- to 13-percent increase in cost of energy.

So, we are trying to address that through the setting up of a consortium of these three universities to develop some of the problems, address some of the problems, research problems, that have been identified by Valmont in their process.

Today, I would like to have Dr. Peter Jenkins then describe briefly what the consortium will attempt to do. Pete.

STATEMENT OF DR. PETER JENKINS

Mr. **JENKINS**. Mr. Kerrey, members of the subcommittee, my name is Pete Jenkins, and I would like to take just a few minutes to describe the plan that we have for this university-industry consortium.

As mentioned by Dr. Splinter, Valmont Industries is currently developing a Stirling engine system for remote power applications. And to date they have put $9 million of their own money, as have been mentioned earlier, into this program.

But as a result of their work over the past years, several key areas of research and development have been identified that need to be addressed before the Stirling engine can be a competitive power source. This university-industry consortium has been formed with universities that have special expertise in the areas related to this required research and development work to improve the design of this system.

The intent of the program is to utilize the talents and experience of the various engineers from the universities involved in order to bring new ideas and advanced concepts to bear on the problems associated with this technology. Now, it is not our intention to reinvent the wheel, but we want to take the existing engine and used advanced technology and bring this forward with new and innovative designs.

The proposed program that we are discussing today consists of a 5-year development plan with phase one being 3 years and phase two being a 2-year program. Phase one would consist of the development and testing of what we call the engine system I. The engine system I would consist of three improved versions of the current Valmont engine system. It is intended that the three universities would work with Valmont at the beginning of the program and provide input and suggestions for design changes and improvements on their current technology. Again, we don't want to reinvent the wheel.

Valmont would then manufacture these units while incorporating improvements in the prototype test units that would be sent to each of the three universities. So, we are planning on each university having their own unit so that they can do independent research on that. This approach provides to the universities a facility for testing and evaluating their own advanced design concepts without interference. I think that is critical to this program.

There would be a review team established composed of representatives from each of the participating organizations that would make quarterly site visits to each of the universities and Valmont to monitor the progress and direction of each of the programs. So, what we want to do is establish a communication base so that we are exchanging ideas and design improvements on a quarterly basis.

Toward the end of the third year, collective design decisions would be made with input from all the participating organizations for recommended changes to be made in the second version of the engine system. These recommendations would be synthesized and consolidated in order to make the most efficient and practical engine system II.

Our design objectives of the program are to provide an engine that would deliver about 100 net horsepower with an overall efficiency up to 35 percent. This compares favorably to a conventional spark ignition engine efficiency which ranges from 28 to 38 percent and a diesel efficiency of 32 to 35 percent. This Stirling engine would be designed for 20,000 hours of operation, and when you compare that with a conventional life of an automobile engine of 5,000 hours, you can see that we have considerable reliability in this system.

Outline of the program. The program has been established at a cost of approximately $1.5 million per year.

Senator **KERREY**. Pete?

Mr. **JENKINS**. Yes?

Senator **KERREY**. We have the red light on which means we have run to the 5-minute mark.

Mr. **JENKINS**. Let me just mention one more word. At that cost, enclosed in the testimony is a matrix showing the university and the task. And we have 31 faculty members that would be working on 24 tasks that we have identified. And this matrix was put together at a meeting at Valmont with all the participating universities. So, we have basically formulated a plan that I think would be very effective in getting this system up and running.

Thank you.

Senator **KERREY**. What happens to the project if in phase two the money doesn't come in because the Federal Government does not supply the money?

Mr. **JENKINS**. Well, through the phase-one part, we have collectively and we have exchanged ideas. And each of us have a system that we can perform R&D on. And we will have the first step toward improving this thing.

Now, what we want to do, though, is integrate that technology into our systems, in other words, the components, the improved components that we would find individually. We need to integrate that into a phase-two system and run some tests on that to make sure that everything is compatible and, in fact, it delivers the performance we are looking for.

Senator **KERREY**. But if Federal money isn't provided for phase two, what happens to the entire effort? You know how that all works here. What the good Lord giveth, He can taketh away.

Dr. **SPLINTER**. I think in this case there would have to be a decision made on the part of Valmont too. They are part of this consortium. And the project may die. There is no guarantee in research, and you cannot predict ahead of time what the results will be.

We would hope that at the end of 3 years that there would be a positive outlook toward a commercial, low-cost, stationary engine that could use agricultural fuels such as corn stover, rice hulls, and so forth. But we would reevaluate at the end of 3 years. And I think from the universities' standpoint, if it is a no-go situation, that would be our recommendation at that point.

We have no preconceived conclusion on this. I think that if we can positively say that this is a venture that will result in an economically justified system, that we will push to go ahead.

Senator **KERREY**. Mr. Mann, you have come all the way to Washington to testify. You have to get at least a sentence in.

STATEMENT OF MICHAEL D. MANN

Mr. **Mann**. I guess a couple of things that are advantages of the system. We have worked on the fluidized bed combustion for about 15 years in various aspects for DOE and industries. Two of the promising things that this technology brings to the Stirling engine is the capabilities to burn a variety of fuels, including biomass, higher grade fuels, coals, and at the same time doing this while reducing the pollution aspects, the particulates which are problems with some of the diesel engines, and also reduce sulfur emissions.

I will leave my statements at that.

Senator **Kerrey**. Thank you very much.

Dr. **Splinter**. Thank you for your time.

Senator **Kerrey**. The next witness is from the American Association of Crop Insurers, Mr. Rick Gibson.

Senator **Harkin**. Mr. Chairman, if I might, I just want to take the opportunity to welcome Mr. Gibson and Bill Classen, two good friends of mine from West Des Moines, Bill and Council Bluffs, Rick Gibson. Rick, as you know, is the chairman of the American Association of Crop Insurers. And Bill, you are vice chair. Right?

Mr. **Classen**. I'm the vice chairman.

Senator **Harkin**. Iowa has got it locked up. [Laughter.]

Senator **Kerrey**. I just wanted to let you know that Rick has never let the Missouri River stop him. [Laughter.]

Senator **Harkin**. I understand that, or the Mississippi either.

But I welcome them here. I have worked with them over the years in trying to develop a comprehensive crop insurance program that would involve the private sector in its delivery system. And I look forward to hearing their testimony. I welcome you here.

Mr. **Gibson**. Thank you.

Mr. **Classen**. Thank you.

Senator **Kerrey**. Good morning.

AMERICAN ASSOCIATION OF CROP INSURERS

STATEMENTS OF:

RICHARD C. GIBSON, CHAIRMAN OF THE BOARD

BILL CLASSEN, VICE CHAIRMAN

Mr. **Gibson**. Good morning.

Mr. Chairman, I am Richard Gibson, president of the American Agrisurance, Inc., and also chairman of the board of the American Association of Crop Insurers. I am here today to present testimony representing the association's views. Accompanying me, as you have just heard, is Bill Classen, president of the Rain & Hail Insurance Services in West Des Moines, IA. He is also vice chairman of our association.

Our association represents the private insurance organizations that write Federal and private MPCI policies. In 1988 our membership wrote the vast majority of the multiple peril crop insurance in the United States.

The American Association of Crop Insurers is the only insurance association that both devotes 100 percent of its energies to improving the program and is delivery system neutral. We have in the past and intend to continue to focus principally on issues that will make this program continue to work better for farmers regardless of which delivery system they choose.

We learned a long time ago that it is a privilege to be able to serve the farm community. We appreciate the opportunity to participate with the Government in this partnership to provide multiple peril crop insurance to an ever-increasing number of farmers throughout the United States. Almost $5 billion in loss payments were paid between 1981 and 1988 to farmers who made the conscience choice to purchase protection for themselves. Crop insurance has saved many family farms and has made a positive financial impact in the rural communities across this great Nation.

Our primary purpose here today is to support the full funding and the continued support of the Federal Crop Insurance Corporation budget that was presented recently to this subcommittee. We believe that the budget USDA proposed will make it possible for the maximum number of farmers to purchase meaningful protection through the crop insurance in 1990.

We also believe that it is critical that this subcommittee continue to authorize emergency borrowing authority for FCIC that is used only to pay claims in the event of a serious national disaster like the one that occurred in 1988. The borrowing authority is essential because of the importance of being able to provide farmers with their loss payments in a timely manner when such disasters occur. This process made the funds available so that farmers who had the good judgment to purchase crop insurance on their crops and then suffered the devastating losses of 1988 were promptly paid. This helped farmers and also eased the stress on the rural community.

Farmer participation in and acceptance of the program has greatly increased. Mr. Chairman, we are pleased to report that the 1988 signup represented an increase of about 20 percent over 1987. In 1989 a record number of farmers are purchasing crop insurance to protect themselves against the whims of mother nature. Since the 1988 signup is still in progress in most areas of the country, we can only roughly estimate what the final numbers might be. However, based on a recent informal survey of companies regarding the policy counts, it appears almost certain that the policy counts will be more than double, and we believe that the insured acreage will be over 100 million acres and protection in force around $12 billion. This compares favorably to the 74 million acres and $7 billion in protection in force in 1988.

This year will be the sixth successive annual record signup. It is by far the largest ever experienced. In fact, Mr. Chairman, I would not be surprised if when the final figures are in that over 50 percent of the eligible planted acreage in the United States may be insured. This is in sharp contrast to a decade ago when only about 10 percent of a reduced base of eligible acreage was insured. For the purpose of this report, we used the gross acres insured as a benchmark to measure progress since this is the basis upon which each farmer must make his choice to purchase crop insurance.

We compliment FCIC for a number of initiatives that were made during the last year.

No. 1, early announcement of the 1989 rates and rules which made it possible to launch a better organized and more effective sales campaign.

No. 2 is improving stability to the program by minimizing the number and improving the timing of the changes.

No. 3, taking steps to determine the actual administrative costs by contracting with a Big 8 accounting firm to determine the cost of the functions performed by FCIC and the private industry.

No. 4, extending the current reinsurance treaty through 1990 which provides enough stability to make it possible for reinsured companies to focus their full attention to maximizing the signup of the farmers into this program.

No. 5, improving the direction of the compliance/oversight which now is focusing more on major issues and less on the insignificant items.

On the other hand, we have a number of areas where our association has deep concerns.

We are concerned with the mixed signals that are sent to farmers by both the Congress and the administration as to the extent that they should rely on protecting themselves with crop insurance as opposed to expecting a handout from Uncle Sam. These mixed signals often contribute to farmers making the wrong risk management decision which fosters continued disaster bailouts.

We are concerned by the inability of FCIC to recognize the need for a long-term reinsurance treaty and agency sales and service agreement.

We are concerned that FCIC is still structured much like it was prior to passage of the 1980 act. It is our judgment that excessive resources are allocated to supporting the delivery of Federal policies at the expense of focusing adequate resources on oversight, compliance, delivery system agreements, actuarial improvements, and working with private organizations as a business partner.

We are concerned that the practice performance standards for reinsured companies have not been developed that clearly and quantitatively state the levels of performance necessary for a satisfactory rating.

Senator KERREY. Rick, we have the red light on.

Mr. GIBSON. We'll finish it up, Mr. Chairman, since you do have this in the file, and say that we are happy to be here. We do think that 1989 statistics will get us into that 50-percent range of participation. Mr. Kerrey, 40 percent of the farmers' eligible acres in the State of Nebraska was enrolled last year, the same in Iowa, Mr. Harkin; and $27 million worth of premium paid, $40 million in Iowa. We think those numbers will be significantly increased this year. And I think that we have the program on a very sound, progressive—moving forward.

We would be happy to answer any questions that we might help you with.

Senator KERREY. Do you have anything?

Senator HARKIN. Mr. Chairman, if you don't mind, I have a couple.

Rick and Bill, I'm hearing a lot of complaints from Iowa that some crops aren't getting coverage—especially apples and potatoes. Some of our Iowa farmers have been planting potatoes in the same area since 1915.

Why has Federal Crop taken so long to provide the coverage, and do we need to take some legislative action in this regard?

Mr. **Classen**. Mr. Harkin, if I may answer this. Those potatoes are grown in the northern part of the State.

Senator **Harkin**. Exactly.

Mr. **Classen**. And I think there has been such a crunch on FCIC since the 1980 act, that they just haven't gotten around to it.

I don't think there is any really good reason why there cannot be a potato program and it could come on very quickly. I think the American Association of Crop Insurers and also the new Crop Insurance Commission that is now functioning, that we will get some rapid attention.

Senator **Harkin**. I sure hope so.

Mr. **Classen**. I do not think legislation would be necessary to get a potato program.

Senator **Harkin**. Do you think they would be able to get it out in time for this year's crop?

Mr. **Classen**. Not for 1989, Mr. Harkin.

Senator **Harkin**. Not for 1989.

Mr. **Classen**. I'm not sure that they can do anything for 1990. I think 1991. We might pressure a little bit on 1990, but probably only for 1991.

Mr. **Gibson**. I would like to talk about the apples. Of course, they come up and down the Missouri River, Senator, also on the Nebraska side in Nebraska City. There is really no reason why those should not be in place. We do have apple programs throughout the United States, and in most cases the rates are judgment rates anyway. So, there is really no reason why those programs could not be put in place.

Senator **Harkin**. The same point. In northern Iowa—there are potatoes grown right across the border in Minnesota. They have Federal Crop insurance—literally within 50 miles of the Iowa farmers who can't get it.

Mr. **Classen**. Mr. Harkin, we have that situation throughout the Nation—it is something that we are working on—where there is a program in one county and not in the adjoining county. I think it can be handled without legislation.

Senator **Harkin**. It is pretty depressing to think it might take till 1991.

Mr. **Classen**. Mr. Harkin, we have had such a problem with the Federal Crop Insurance Corporation in getting all of the necessary forms, et cetera, through their actuarial and through all the requirements that are necessary before they can put a program in place. I would hope that we can eliminate some of the bureaucracy and do it quickly and especially with the recommendations of the Crop Insurance Commission. I see no reason why there cannot be a program across the line, Mr. Harkin.

Senator **Kerrey**. The problem is with the FCIC?

Mr. **Gibson**. Yes.

Mr. **Classen**. We think it is, yes. We know it is, in fact.

Mr. **Gibson**. One of the recommendations of the Commission will be that the FCIC use contracting with outside actuarial sources to bring these things to fruition a lot quicker, and I think in much better shape than what we have seen through the offices of FCIC.

Senator **Harkin**. I would hope that you would prevail upon them to do that.

Mr. **Gibson**. We would much like to, sir.

Senator **Harkin**. Just one other thing. Delaware County, crop insurance for corn is, I'm told, over $15 an acre. In Jones County, right next door, it's around $7 an acre. I'm getting a lot of complaints about this too, as you can imagine.

Are these rates set by FCIC?

Mr. **Classen**. Mr. Harkin, they are set by FCIC, and it is my understanding in that area and more counties in northeastern Iowa where they did have a bad situation about 23 years ago, and that same experience—when they raised those rates to take care of that experience, they froze all the business. And those farmers are not buying it because of that pricing. Again, an FCIC problem.

Senator **Harkin**. Well, that was my next question. Isn't this hurting sales?

Mr. **Classen**. Yes; no question about it.

Senator **Harkin**. It was locked in 23 years ago.

Mr. **Classen**. I don't know if that is the exact number, Mr. Harkin, but it's——

Senator **Harkin**. Well, a long time ago.

Mr. **Classen**. Quite some time ago, yes.

Senator **Harkin**. Because of one event.

Mr. **Classen**. Yes.

Senator **Harkin**. What would they have to do to get the rates evened out? What would it take to do that?

Mr. **Classen**. Well, they have to use some judgment. I'd say some actuarial integrity is what is needed at this point.

Senator **Harkin**. Gosh, we ought to have that over the years.

Mr. **Gibson**. They have the historical records, but at this point they have not implemented them in our opinion by way of a good actuarially sound program that will bring these rates in line. There are some areas that very much need to be increased and other areas that need to be decreased. This is another area we think that by contracting with the organizations in National Crop Insurance Services, which has the computer power and the actuarial staff, that we can put these changes and put them in place dramatically and reflect the actual risk involved. That is a recommendation of our commission.

Senator **Harkin**. I think we ought to take it up with FCIC too. Thank you very much.

Senator **Kerrey**. I would agree. One of the difficulties that I have with the areas of concern you have identified, Rick, is that you lead with one that I'm not sure we're going to be able to do much about. For example, you are always going to have a situation where there is going to be a temptation in the presence of an uninsured disaster to do something that might send the mixed signal that you worry about. That temptation is always going to be there in the presence of a natural disaster. I'm not sure there is anything you can do to overcome that.

In many cases the temptation is justified. I remember in 1975 we suffered a tremendous disaster in the form of a tornado. And I guarantee you that if Jerry Ford had not declared a Federal disaster, even though my building and my business were fully insured, we would not have been able to survive it. So, the Federal handout from Uncle Sam in 1975 was greatly appreciated and enabled the community to be put back together.

I'm a little concerned. What I think would be very useful for this committee, particularly for Senator Harkin, to be able to help with these kinds of specific problems with the FCIC, would be to get a specific list from you of the priority items to address with the FCIC.

Mr. **Gibson**. We certainly would be happy to discuss with you the recommendations of the Commission and ourselves as representatives of the American Association.

And one of the things that has come out very clearly from the hearings, especially from the farmers who have testified, is that they made that conscious decision to purchase crop insurance and their neighbor who didn't, who would wait and especially in some States, not necessarily these two, because participation in Iowa and Nebraska is very high, but they are concerned, the farmers who paid the premium that they come out whole and that we do not have this dependence upon the disaster bailouts that we have had in the past.

Senator **Kerrey**. You mentioned in your item No. 2 that the FCIC has a policy not to provide long-term reinsurance. What are the arguments for a long-term reinsurance agreement?

Mr. **Gibson**. The advantages, and certainly both for the companies that are involved, as well as the farmer community, is that it takes tremendous investments in computers and people and processing. And we have to put this in place so that companies will make that decision, will get in and will support that program. Right now there is a decision by the general counsel which says that—it's very discriminatory we think toward the reinsured companies, and will not allow us to go forward other than 1990.

And so, we are really looking forward to trying to break that logjam and trying to move forward and get 3- to 5-year commitments so that we can see that we will be in business for 5 years and beyond rather than be on a year-to-year basis, Senator. The year-to-year just tears us up, as well as you would know in a lease situation.

Senator **Harkin**. What does FCIC say? This is an administrative policy decision, and I'm trying to get an understanding of what they would say coming back as an argument for saying we don't want a long-term reinsurance treaty.

Mr. **Gibson**. In the past I think they have based some of their decisions upon funding, some of the decisions upon the inabilities of, say, the companies to deliver the number of—percentage of participation. But I think that we have overcome those. So, I think that where we're at now is I do not think that they have any really valid reasons that they should not give us this long-term agreement.

Senator **Kerrey**. Thank you.

Mr. **Gibson**. Thank you very much, Senator.

Mr. **Classen**. Thank you.

Senator **Kerrey**. We welcome the chairman of the subcommittee, and I will relinquish the chair to him.

Senator **Burdick** [presiding]. Neil Sampson of the American Forestry Association.

AMERICAN FORESTRY ASSOCIATION

STATEMENT OF R. NEIL SAMPSON, EXECUTIVE VICE PRESIDENT

Mr. SAMPSON. Good morning, Mr. Chairman. I am Neil Sampson of the American Forestry Association, America's oldest citizens' conservation organization. We appreciate the opportunity to share some views about the Nation's natural resource and conservation budgets in the Department of Agriculture.

Our summary recommendations basically are five. In this decade, the national priority on national resource and environment programs has declined by 50 percent. In 1979, the United States spent 3 cents out of every Federal dollar on these programs. By 1989 that proportion had dropped to 1½ cents on every dollar, and that priority would have been lower had it not been for the Congress which consistently raised administration recommendations.

Mr. Chairman, we feel that this priority is far too low, and that cutting it still further, as the President's budget would do, in light of worldwide environmental problems is irresponsible.

That is the basis for the five recommendations that we bring you today. They are as follows.

The Nation and the world needs more and better forests on farms, as well as traditional forest production areas. And USDA programs should assist private landowners in expanding the area devoted to trees and forests and improving their growth and productivity.

No. 2, effective soil and water conservation programs are essential to the future of the Nation and their capacity should be maintained even in the face of difficult budget decisions and times.

No. 3, economic incentives are critical as a means of inducing private landowners to make the long-term investments in natural resource productivity that high interest rates elsewhere in the economy would otherwise render impractical.

No. 4, research and education for low-input sustained agriculture needs to be continued with attention to the broadest possible range of natural resource products from all types of land uses that can help landowners develop sustainable, profitable businesses that support families and protect natural resources.

And finally, Mr. Chairman, water quality is an important aspect of natural resource management. We commend USDA for having it high in their priorities. But water quantity, water supply, is becoming a serious problem in parts of the country that has never been felt before, and it shouldn't be ignored.

To achieve those objectives, we recommend a total Soil Conservation Service budget of $720 million which would maintain 1989 program levels while allowing the new initiatives proposed in the President's budget.

Two, total funding for the Agricultural Conservation Program, the Forestry Incentives Program, and other USDA cost-share programs at $209 million.

And three, funding of the Extension Service's Renewable Resources Extension Act at $6 million, as well as maintaining Smith-Lever funding at 1989 levels with an additional $15 million for soil and water conservation educational programs.

Mr. Chairman, we know what is happening around the world with forests, and we also know that forests are a major factor in the world's environment. And we hear about tropical deforestation, and we can't solve those problems with an agricultural conservation program here in this country. But we can take advantage of our domestic opportunities.

Surveys by the U.S. Forest Service indicate that there may be over 20 million acres in the Southern States alone that would be economically more productive and environmentally more safe in forests than in their current marginal crop or pasture use. The best tool we have ever had to do that is the current Conservation Reserve, but the administration's budget proposes that we only meet the minimum objectives of that reserve, 40 million acres by 1990. We recommend that Congress increase that funding to target at least 45 million acres or more in that effort.

U.S. forest landowners aren't taking advantage of all their opportunities for forest management either. Again, forest studies indicate that U.S. forest managers, most of them private, most of them nonindustrial, private owners, may have the economically feasible opportunities to increase forest growth by up to 16 billion cubic feet of wood a year. Much of that opportunity then depends on the educational programs of the Extension Service and programs of the State forestry agencies. And this is why we have encouraged that budget to be increased.

Mr. Chairman, we think that the momentum established by the 1985 farm bill needs to be maintained with continued strong technical assistance programs in the Soil Conservation Service supported by an adequate cost-sharing program in ASCS and a significantly increased educational effort and extension.

In summary, we believe that the decade's trends in natural resource program decline have got to be reversed. We are keenly aware of the budget crisis that faces the Nation and, therefore, refrain from asking for the kinds of major increases that we otherwise feel are justified.

We would, however, conclude by asking that you do everything within your power to retain the vigor of our current programs, add small increments to meet new and urgent priorities, and continue to pray for the day when our Nation can once again rebuild its priorities for investing in a strong natural resource base future.

Mr. Chairman, we thank you very much for your time today. I'll be happy to answer any questions you might have.

Senator BURDICK. Thank you.

Is that reduction in the number of the trees a worldwide figure, or is that just for this country?

Mr. SAMPSON. In our testimony we cited the tropical deforestation number which is 27 million acres a year we are estimating now through fire and actual deforestation, another 13 million through logging and woodcutting. If you run the math on that at 40 million acres a year right today, it comes out 500,000 trees per hour, which is an astonishing number. It is a worldwide figure.

Senator BURDICK. How do the conservation cost-share programs such as the timber planting under the Forestry Incentive Program help?

Mr. **Sampson**. Well, we think that they help a great deal. Studies done by the University of Georgia and by State foresters in the South indicate that the cost-sharing program such as the Forestry Incentive Program and the Conservation Reserve have made a tremendous difference in the amount of trees planted in the last 4 or 5 years.

Senator **Burdick**. Thank you.

Mr. **Sampson**. Thank you, Mr. Chairman.

Senator **Kerrey**. Mr. Sampson, would you just give me a brief description of this association? Who are the members? Do you have State foresters in this organization?

Mr. **Sampson**. Mr. Kerrey, we are a citizens' conservation organization, and we have State foresters and private sector foresters, but we probably are made up more of other people, of landowners, of professionals. We have a high degree of people in professions such as law and dentistry and doctors who own forest land and belong to us because they love forests and forestry.

Senator **Kerrey**. Thank you.

Mr. **Sampson**. Thank you very much, sir.

Senator **Burdick**. Thank you.

Dr. Lamartine Hood, chairman of the budget committee, National Association of State Universities and Land Grant Colleges. Welcome to the committee.

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

STATEMENT OF DR. LAMARTINE F. HOOD, CHAIRMAN, BUDGET COMMITTEE

Dr. **Hood**. Thank you, Mr. Chairman. I am here today representing the division of agriculture of the organization that you just named and have with me members of the 1990 budget committee that is comprised of representatives of cooperative extension, the agricultural experiments stations, resident education and other components of the land grant systems.

We have a series of priorities that have been established through a planning process that was put in place in the 1977 farm bill, and these priority programs are six in number. And I'd like to spend the time with you this morning discussing those priority areas.

The base programs are exceedingly important. These are the programs that are funded through the Hatch, Smith-Lever, McIntire-Stennis, Evans-Allen, and animal health funding. These provide the capability for us to maintain an agriculture research and extension and resident education effort in this country that allows us to have in place a system that can respond to those important issues facing the agriculture and rural sectors.

A good example of that would be the drought that has inflicted this country over the last several years. Work going on at the land grant institutions over a long period of time, looking at how water can be conserved, looking at stress, development of stress-resistant plants, looking at managing financial resources in a limited resource situation has been a very important result of the long-term research and education efforts.

These base programs significantly leverage State and private funding. For example, the research funding that comes to the States for the base programs, a dollar of Federal money leverages $4.80 of State and private money. On the extension side, $3 of Federal money leverages $7 of State, private, and county funds. So, it is a partnership, a cooperative effort, and one in which the Federal investment is reaping very large returns.

It also leverages a large number of volunteers. For every paid professional in the cooperative extension system, there are some 250 volunteers who give freely of their time and effort to make that extension education effort as viable as it is.

You have in front of you a sheet that has a graph in the middle of it that shows how the funding for those base programs has declined over the last 10 years. The actual appropriations have increased, as is shown by the top line on the graph, but when you adjust those for the consumer price index, you will see that there has, in fact, been a 20-percent decrease in the purchasing power of those very important base program funds. And so, we feel and hope that you will agree that it is important that those base programs be maintained for the long-term sustainability of agriculture in this country and to ensure that we maintain our competitive posture on the international level.

There are five highest national priorities that have been established by this planning process that I alluded to a few minutes ago. Again, they are detailed right under the graph on the page.

Improved water quality and quantity has been mentioned earlier this morning. That is our most precious resource in this country and we need to have expanded research and extension efforts to ensure that we are doing all we can to preserve and utilize that very valuable resource. It will not only impact agriculture and the rural and urban communities today, but it will impact the generations of Americans that follow us and, therefore, is a very significant issue.

Expanding biotechnology, an area that will allow agriculture to become even more advanced than it currently is and certainly enhance its competitiveness. Basically biotechnology is simply moving genetic material from one source to another. It will allow us to develop plants that require less pesticide, that perhaps require less water to grow. It will allow us to have animals that will yield less fat in their meat and be more efficient in the conversion of feed to meat.

Certainly we need, as the third priority, to address the maximization of human capital. That is the next generation of agriculture scientists and leaders in this country, and we need to pay close attention to that.

The fourth priority, improving understanding of diet, human nutrition, and health relationships, is one of great concern. We need to be concerned about the safety of our food supply. We need to be concerned about the effects of production and processing on nutrient quality and certainly upon the relationship of the constituents of our food supply with the health status of all Americans.

And finally, we need to work much more aggressively on utilizing the many genetic materials that are available to ensure that we can improve our economically important plants.

Mr. Chairman, I would like to introduce to you the members of the committee here this morning because these people have worked very hard to establish the set of priorities and this budget, and I know some of them come from States that are a part of your constituency.

John Bowen, from the University of Georgia, Commission on Veterinary Medicine. And I would ask that they just raise their hands.

Dr. P.W. Brown, Tuskegee University, representing the 1890 Extension Programs.

Dr. Zerle Carpenter from Texas A&M University, representing Extension.

Dr. Karen Craig from the University of Nebraska, representing the Commission on Home Economics.

Dr. Paul Hummer from Oklahoma State University, representing resident education on campuses.

Mr. Steve Laroe from Alaska, representing the Council for Agricultural Research, Extension and Teaching.

Dr. Oran Little from the University of Kentucky, representing the Agricultural Experiment stations.

Dr. Arthur Allen from the University of Arkansas, Pine Bluff, representing the 1890 Research Institutions.

These are some of the members of this committee who have worked to develop the materials that you have in front of you, and they are explained in great detail.

And we appreciate the opportunity to be with you this morning, and would be pleased to respond to any questions that you might have.

Senator **Burdick**. Senator Kerrey.

Senator **Kerrey**. In some earlier testimony—I don't know if you heard my comments to Senator Bond when he was making a presentation for four specific programs—I asserted that one of the things that seemed to me to be important to do was to focus some of our attention, in regard to development of markets, on the domestic marketplace, as well as on the international marketplace.

One of the things that immediately gets you into is this arena where all of us tread rather lightly, and that is in trying to plan research, trying to assess what is in the best interest of the Nation, as well as what is in the best interest of the researcher. I assume that in the development of these priorities, that this committee had to do that, that you had to try to balance the Nation's interests against the interests of the researcher.

Can you give me some sort of idea of the analysis that you go through?

Dr. **Hood**. Mr. Kerrey, the priorities are established by the Joint Council for Food and Agriculture which is an organization that was authorized under the 1977 farm bill. It is composed of lay people, as well as representatives of the land grant system in the Federal Government. It is a process that begins at the State level and ultimately is narrowed down in a set of priorities at the regional level, and finally a set of national priorities are winnowed out of that process.

The five highest national priorities that have been identified were established by the joint council for 1990. They were not established by the NASULGC budget committee that I am chairing. However, these are priorities that are extremely important we believe to the sustainability and competitiveness of American agriculture, and those five priorities, coupled with maintaining those long-term base programs that I mentioned earlier, are going to be important in helping us to maintain the competitive edge in the marketplace.

We did consciously examine those priorities and in developing the budget recommendations, felt that they were ones that the budget should be built around.

Senator **Kerrey**. It is this winnowing that you are referring to that peaks most of my curiosity and interest because it is precisely at that moment it seems to me—and I suspect it was a rather elongated moment—that the debate about what is in the best interest of the Nation occurs. And I appreciate that parochial interests are factored in, that subjective judgments must be made, as well as objective judgments. I know it is not a simple matter to do.

But it is important for me, as an individual who has to make policy decisions, to hear from people who are at the level of the research or at least in contact with it to give me some sort of an idea how that winnowing happened. I understand that a different committee other than this reached these conclusions, but you obviously share these conclusions because you are presenting them. Or perhaps I shouldn't assume that. Perhaps you disagree with the conclusions that have been reached.

Dr. **Hood**. No, sir; we support the conclusions of the joint council.

Senator **Kerrey**. Let me try to get very specific. You mention improved water quality and quantity. Now is that because of lengthy articles that have been written in Time magazine, and because you have listened to politicians give speeches about it and it sounds like it is important, and thus that is what you want to fund? I am trying to get some idea of what went on and what sort of arguments and what sort of rationale went into putting this in a blueprint with a check mark by it and a paragraph of documentation and I assume lots of other documentation that would support that conclusion. I share it, but I am trying to determine how you reached the conclusion.

Dr. **Hood**. The conclusion was reached, as I indicated earlier, by a long process involving a number of people.

The water quality issue is an issue that all people, all of research and extension and consumer groups, agree within all of the regions is the most important issue. So, as it came out of each of the regions, it was identified as the most important issue. At the national level, at the joint council level, it's a voting process where all of these issues are spelled out and they actually vote on which are the most important.

But I think we can all agree that the water supply in this country is our most precious resource, and certainly one that we all depend on in one way or another. And clearly it is an area that we know so little about how agriculture impacts it. We know so little about the contaminants that are present in it, and we need to do much more research and education to ensure that we are doing all that is possible to preserve it.

But the one that you have identified was last year and again this year is the highest priority; it is the one at the top of the list. There are a number of publications that have come out from the experiment station system, from the cooperative extension system, from the division of agriculture spelling out the important areas within the water quality rubric that need to be addressed, and those can certainly be provided to you for more indepth information.

Senator BURDICK. Thank you very much.

Our next witnesses are John F. Stock, director, and Willard R. Micklish, director, Soil and Water Conservation Research Association.

SOIL AND WATER CONSERVATION RESEARCH ASSOCIATION

STATEMENTS OF:

DR. JOHN F. STOCK, M.D., DIRECTOR

WILLARD R. MICKLISH, DIRECTOR

Mr. MICKLISH. Good morning, Senator Burdick. We represent the Barnes-Aastad Soil and Water Association. We have been coming here for 20 years in support of agricultural research and also specifically the North Central Soil and Water Research Center at Morris, MN.

Our organization has not always asked for money from this organization, from your committee. We have provided 50 acres and now another 80 acres to the Federal facility to be used in plots, test plots. And these test plots are quite important to this research facility.

The North Central Soil and Water Research also has cooperated with NDSU in Fargo. In fact, one of our new men coming on stream July 1, system analyst, is from NDSU and a soil scientist.

I would now like to introduce Dr. John Stock who is a medical doctor, an internist, and also an active farmer in the area. Dr. Stock.

STATEMENT OF DR. JOHN F. STOCK

Dr. STOCK. Good morning. In today's agribusiness, two areas of critical concern, as mentioned by previous speakers, are water quality and future sustainable and profitable farming methods. The research laboratory at Morris is a leader in addressing solutions to protect our Nation's surface and ground water supplies. To eliminate pesticides and fertilizers entirely would have serious financial consequences both for the public and for farmers. The previous agricultural methods of simply applying more fertilizer and more pesticide is no longer appropriate, nor is it economically feasible. Research into lower input farming methods, such as minimum or no-till, early crop canopy coverage, how much weeds are tolerable, and the optimum timing of fertilizer and pesticide applications will lead to less risk of surface and ground water contamination. In doing this, it will enhance farmer profitability.

An indepth analysis of fertilizer and pesticide movement from crop areas to surface and ground water sources must be very high priority. As alluded to earlier, the Morris soils laboratory has been in the forefront of research into lower input agricultural methods and into water quality.

In summary, additional significant funding is of utmost importance in the area of water quality and low input agricultural methods. We feel that how best to focus the research should be left to the Agricultural Research Service.

Thank you.

Senator **Burdick**. Thank you very much.

Is everything all right in Morris?

Mr. **Micklish**. Everything is fine. Thank you, Senator.

Senator **Burdick**. The National Association of Conservation Districts, Robert Wetherbee, president.

NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

STATEMENT OF ROBERT WETHERBEE, PRESIDENT

Mr. **Wetherbee**. Good morning, Mr. Chairman and members of the committee. My name is Robert Wetherbee, and I am the president of the National Association of Conservation Districts. Out in the real world I am a cash grain farmer in the Red River Valley just across the river from Fairmount, ND. I appreciate the opportunity to appear before you today representing the 3,000 conservation districts in this Nation. I would also like to thank this committee for the support that they have always given to the conservation districts and the SCS and the conservation effort in general.

Rather than reading this entire statement, I would like to summarize this to save you some time, sir.

As you know, conservation districts help carry out the SCS program and cooperate with the various assortment of Federal and State management agencies, and because we do work jointly with these Federal agencies, our members feel that it is important to share our appropriation recommendations with you.

Attached to the testimony is a table showing a fiscal year 1990 line item appropriation recommendation. But rather than go through those one by one, once again, I'll attempt to catch what I regard as the main points.

The first point would be a rather general comment on appropriations for natural resource protection in general. Studying the situation shows to us that over the past 25 years, Federal funding to protect the natural resources has dropped about 30 percent as a percent of the total of Federal dollars spent. In fact, as recently as 1978, about 3 percent of all the Federal funds in the budget were used for natural resource protections. In 1989 that had dropped about one-half to approximately 1.5 cents on the Federal dollar being used for natural resources. The 1990 administration budget would drop that further down to only about 1 percent of the entire Federal budget going for natural resource protection.

At the same time, we have passed a lot of new resource protection programs such as the Clean Water Act and the various Federal conservation programs. I guess the point is we have done a lot of talking about doing something about the environment. For years people have said the public wants something done about the environment, and still we don't seem to be able to come up with the money to do it.

I think we need to elevate the priority of this country for natural resource management by appropriating the funds to do that job. We fully recognize this is a difficult situation given the current budget limitations, and I don't have an answer on where to get those funds from. But it seems like this is a priority issue for the public and it should be for the Congress and for the Government to do something about it.

The second point, the 1985 Food Security Act in our judgment is working well. There is still a lot of work to be done to implement all the requirements of that act in the conservation section.

However, due to the workload in that, we find that a lot of programs that are important on the local level to conservation districts in particular have had to be put on the back burner. Things like flood control, which to a farmer along the Red River today is a very important issue, things such as range and forest management, urban conservation and wildlife habitat improvement are important issues which have been sidetracked to some extent because of the workload of the Food Security Act.

We have spent about 3 years focusing on developing those conservation plans. Now we have to start implementing them. We find that is not going to be something we can do on the basis of group meetings of 30 and 40 people like we did with the plans. Implementation is going to be mostly a one-on-one situation.

A number of people have the misconception that because the planning is almost done, the workload is going to drop. Our feeling is that the workload hasn't even peaked yet. The workload for the conservation districts in implementing all those plans, plus the base conservation programs they have always carried on is probably going to increase rather than decrease.

In order to meet those Food Security Act workloads and the ongoing conservation programs, we would recommend that you appropriate $515 million for SCS' CO1, or conservation operations account, for fiscal year 1990.

In addition to that technical assistance, we feel that USDA needs to beef up its educational programs. And in order to do that, we would recommend once again that you provide $15 million for the cooperative extension service for farm bill educational activities.

You have heard a lot of speakers talk about water quality today. We recently had a national convention and our members agreed also that water quality is probably the No. 1 issue facing this Nation. We would like to go on record as supporting USDA's water quality initiative, but we are very concerned about the way they wish to fund that effort.

The administration is proposing to redirect funds used for existing programs to work on water quality. As an example, in the Soil Conservation Service's fiscal year 1990 budget, the administration proposed $13 million for water quality; $7 million of that was new funds; $6 million comes from redirecting Food Security Act funds. We would make the point that that is robbing from Peter to pay Paul, as the old saying goes, and if new funding is not available, we find it hard to imagine how that program can continue.

On the cost-share programs, NACD has always supported the use of cost-shares along with education and demonstration as a way to get things done. We think that they are the cornerstone of most of the conservation programs. The new water quality programs will require additional funding not less for cost-share for that type of practice.

For fiscal year 1990, we would recommend that ACP funding be restored to $200 million, and for water bank we would recommend a figure of $12 million to add to the public's interest in doing something about preserving the Nation's wetlands.

On low-input, sustainable agriculture, or LISA, we support USDA's current LISA research and education programs. We would recommend that the $4.5 million appropriated this year to the Cooperative State Research Service be maintained in fiscal year 1990. We would like to point out that we think with LISA that there is a lot yet to be learned and a great deal of research needed before it can be adopted on a wide scale.

Finally, on the Office of Assistant Secretary for Natural Resources and the Environment, we would like to point out that the office is probably more important today than it has been in the past, and we would like to urge this committee to restore the funding for that office.

Thank you for the opportunity, and I would be glad to answer any questions, sir.

Senator BURDICK. Thank you very much.

The Senator from Iowa.

Senator GRASSLEY. No, Mr. Chairman, I don't have any questions.

Senator BURDICK. Thank you very much.

Our next witness will be Dr. David Thorud, dean, College of Forest Resources, University of Washington. Welcome to the committee.

UNIVERSITY OF WASHINGTON

STATEMENT OF DR. DAVID B. THORUD, DEAN, COLLEGE OF FOREST RESOURCES

Dr. THORUD. Thank you, Mr. Chairman, Senator Grassley. I am very pleased to be here speaking on behalf of the University of Washington, but also I might add Washington State University, our sister institution over in the eastern part of the State. And I am here actually representing our Center for International Trade in Forest Products, as well as the comparable center at Washington State University that deals with agricultural products, and it is called IMPACT.

We are here speaking on behalf of our appropriations request for these two trade centers under authorization of the International Trade Development Center's grant program of the 1985 farm bill.

Both CINTRAFOR and IMPACT were established by the Washington State legislature in 1984 recognizing the importance of the international markets and their complexities for both agriculture and forest products from the State of Washington and the Pacific Northwest in general.

We started out with State funding, but over the years it has grown. Both centers have grown to be a cooperative effort involving both State, private, Federal, and university support focused on the expansion of market opportunities for agriculture and forest products. And all of those sources have provided funding.

If our request for fiscal year 1990 is approved, it will be the third year that we have had Federal support for these two centers, and we greatly appreciate the support of this committee and the Congress in this regard.

Both of the programs, CINTRAFOR and IMPACT, meet all of the requirements of the 1980 farm bill in terms of trade development centers. Both programs are comprehensive and provide services that include data and information, active research programs, graduate education, opportunities in trade, and both outreach and public service kinds of programs.

The 1990 funding that we have requested in terms of the Center for International Trade and Forest Products would strengthen our research program dealing with the Pacific Rim forest products opportunities, those international markets in the Pacific Rim which are extremely important to our wood products industry, and would also expand our growing program that deals with the use of wood as a construction material in foreign markets. The funding would help us expand the scope of publications, workshops and conferences, and technical services. There is a great deal of outreach activity to the forest products sector involved in our international trade program.

With regard to IMPACT, there is no doubt that the funding would greatly assist in improving the cost competitiveness of northwest agriculture and would assist in identifying and quantifying new foreign markets for agriculture products from our State and the Northwest. And it would help establish more institutional linkages with universities, government agencies, and private research firms in target markets which would include Japan, Taiwan and Hong Kong, as well as Korea. Those are the four principal markets in the Pacific Rim for our agricultural products.

Another area of growing significance is the dealing with postharvest physiology and related issues in terms of maintaining the quality of the agricultural product, the quality that is demanded by our foreign markets.

So, there is no question in my mind and in the minds of my colleagues at Washington State University that this funding will be put to great use in this area of international trade and agriculture and forest products as we move into the future.

We appreciate the opportunity to appear before your committee, and I would be happy to respond to any questions that you may have.

Senator **Burdick**. Senator Grassley.

Senator **Grassley**. Mr. Chairman, I don't have any questions of this witness either.

Senator **Burdick**. Mr. Specter.

Senator **Specter**. Thank you very much, Mr. Chairman, but I do not have any questions at this time either.

Senator **Burdick**. Thank you very much.

Dr. **Thorud**. Thank you, sir.

Senator **Burdick**. Our next witness will be Mr. Dana Herron, past president of the Washington Wheat Growers Association, and Dr. LeRoy Rogers, acting dean, College of Agriculture and Home Economics.

WASHINGTON STATE UNIVERSITY

STATEMENT OF DANA HERRON, PAST PRESIDENT OF WASHINGTON ASSOCIATION OF WHEAT GROWERS

Mr. HERRON. Thank you, Mr. Chairman.

Honorable Chairman Burdick and members of the subcommittee, my name is Dana Herron. Dr. Rogers, acting dean of the College of Agriculture and Home Economics at Washington State University is unable to attend today and sends his regrets.

I am past president of the Washington Association of Wheat Growers, and I am here on behalf of Washington State University and the wheat industry of the Pacific Northwest.

A food and human nutrition building on the Washington State University campus is now under construction. The Washington State legislature appropriated $13 million for phase one of the building during its 1985 to 1987 biennial session. The Congress since then has graciously appropriated $10,945,000 from 1987 through 1989, as shown on the table you have in front of you today. These appropriations were made under the Research and Facilities Act, Public Law 88–74, as amended by section 1411 of the Food Security Act of 1985.

I am here today to request your support for the final appropriation of $2,538,000 of Federal funds in Federal fiscal year 1990 needed to complete phase two of the building. Your favorable response to this request will permit us to expand and continue the model Federal, State, and private industry partnership that has been developed in the Pacific Northwest in the past decade.

The building now under construction will house Federal and State scientists, State educators, and Cooperative Extension personnel dealing with the complex areas of food processing distribution and marketing in a worldwide context. Their work will include food marketing, processing, food quality, food safety, human nutrition, and entomology. It is related, as Dr. Thorud just mentioned, to the international marketing program for agricultural commodities and trade at WSU, the IMPACT center. These programs' results will stimulate development and enhance the efficiency and profitability of agricultural producers of these in Washington and the Pacific Northwest. And the benefits not only accrue to those producers in Washington State, but to all those in the Nation.

The attached pages titled the Project Description contain more complete information on the total scope of the programs to be housed in this new building. In the interest of time, I will not read what is available to you to read at your leisure. But there is one part of the planned building that is of particular interest to me and to all producers of wheat for food and for seed and to the Association of Washington Wheat Growers, which is the Western Wheat Quality Laboratory.

The final determination of the milling and baking characteristics of new germplasm and new varieties and their suitability to customers is provided by the Western Wheat Quality Laboratory. It tests the milling and baking properties of these advanced lines to determine whether or not they fill the customers' bill, so to speak, from the consumers' perspective. A new wheat quality laboratory is included in the building to meet our current and future needs.

Wheat growers in the Pacific Northwest have a long history of direct action to help develop markets. We back this up with research support to the ARS and to the land grant universities. Wheat growers voted last year to double their assessment to the Washington Wheat Commission. This action essentially doubles our current programs of product development, promotion, education, and research. More than $1.25 million of grower dollars will be available from grower assessments under this program, and about one-third of that will go to research at WSU.

Completion of the Food and Human Nutrition facility and the Wheat Quality Laboratory will permit us to upgrade and enhance our testing and product development programs. A pilot food processing plant is included to provide similar research capabilities for other commodity groups in the region and other States and other commodities such as fruits and vegetables.

I sincerely appreciate the opportunity to appear in front of the committee today and would try and field any questions you might have.

Senator BURDICK. Thank you very much.

Mr. HERRON. Thank you.

Senator BURDICK. Our next witness will be Dr. Louis Swanson, associate professor of rural sociology, University of Kentucky, Consortium of Social Science Associations. Welcome to the committee.

CONSORTIUM OF SOCIAL SCIENCE ASSOCIATIONS

STATEMENT OF DR. LOUIS SWANSON, ASSOCIATE PROFESSOR OF SOCIOLOGY, COLLEGE OF AGRICULTURE, UNIVERSITY OF KENTUCKY

Dr. SWANSON. Thank you, Mr. Chairman. Mr. Chairman, we appreciate the opportunity to address your committee this morning.

My name is Lou Swanson. I am an associate professor of sociology in the College of Agriculture at the University of Kentucky. My research and teaching have focused on the economic and social well-being of rural America, and it is this topic I will speak about this morning. I am testifying on behalf of the Consortium of Social Science Associations [COSSA] which represents 185,000 American scientists across a wide spectrum of social and behavioral science disciplines. I am a member of Rural Sociological Society which is an affiliate of COSSA. A list of COSSA members, affiliates, and contributors is attached.

Rural America is at a crossroads. Home to over 60 million people, including farm families and their nonfarm neighbors, it is no longer insulated from national and international events, but jobs and other income opportunities have proven vulnerable to business cycles and global competition. This vulnerability comes on the heels of several long-term economic forces that have led to the force of vital services such as schools, hospitals and housing, disruption of rural financial institutions, deterioration of the transportation and communications infrastructure, and the loss of population and attendant political influence. As a result of these events, more jobs are lost, people continue to leave, families suffer, and the downward trend continues.

During the last 2 years, farmers, community leaders, business people, local and State officials, and other deeply concerned rural citizens have come before Congress to express their serious concerns and to ask questions about the future of rural America and the people and institutions that hold it together. If rural America is to be revitalized, they need to know what information can help them assess the answers and they need to find the answers to their questions.

There are solutions to many of the problems facing rural America. Helping them find the solutions is a challenge to the mission and capability of the land grant universities. These public institutions can and, indeed, should create new knowledge and transmit it to rural leaders, State governments and businesses that are essential partners to any rural revitalization effort. This is done by focusing both the research and extension capabilities of the land grant university system on the problems of rural America in a concentrated and coordinated way that goes beyond the relatively small programs which now exist.

The State agricultural experiment station system has set forth a new research agenda to help provide answers to the questions of how to revitalize rural America. This agenda addresses the diversity and complex interdependence of rural economies, communities, and families as they confront shifting world markets and domestic change. The new agenda is fully developed and described in the report entitled Agriculture and Rural Viability, which is this document here, published by the Experiment Station Committee on Organization and Policy.

Ironically, at the very time rural social scientists are being asked to supply more critical information and analysis about the changing social and economic conditions of rural America, we are facing a decline in the resource base needed to generate this new knowledge. Funding for rural development and related research has been in chronic decline for a number of years.

In response to this burgeoning knowledge gap, the National Association of State Universities and Land Grant Colleges [NASULGC] who spoke earlier this morning, in its report entitled Strategic Investments for Agricultural Research and Education, recommended that the new research agenda on rural viability be funded in fiscal year 1990 under USDA special grants, Public Law 89-106, section 2(c).

Since the presentation of the administration's fiscal year 1990 budget request, we have learned of the new rural development initiative in the Senate, and I had the privilege of attending the hearings of this initiative held by Senator Leahy and his committee last week. We support that bipartisan initiative and hope that through new legislation, it leads to effective, new rural development programs.

But assuming that any funding under the new rural development authorization will not be available until fiscal year 1991, we are requesting that the Congress partially fund the rural viability and family well-being items recommended by NASULGC with a combined $4 million for fiscal year 1990. This modest amount would provide startup grants for research to help get a head start on the emergent rural development agenda. Good research, in particular good applied research, on rural development issues requires lead time, and the lead time provided by this funding in fiscal year

1990 will be valuable to the success of needed new rural development research We hope you will give us this chance to get started this year.

Thank you, Mr. Chairman.

Senator BURDICK. Thank you very much.

Our next witness will be Ms. Julie Motz, Hudson River Film and Video. Welcome to the committee.

HUDSON RIVER FILM AND VIDEO CO.

STATEMENT OF JULIE MOTZ, EXECUTIVE PRODUCER

Ms. MOTZ. Thank you. Mr. Chairman, I am Julie Motz, executive producer of the Hudson River Film and Video Co.

Last year I appeared before you to request an appropriation of $500,000 for a documentary series on the history, present and future, of American agriculture and nutrition. The committee was able to appropriate $175,000 to the project which has been matched as proposed with non-Federal funds.

I am here before you again to request that funding for the fiscal year 1990 be kept at the level of $175,000. This will enable us to complete the first two 1-hour programs of the series and do the essential groundwork for the second half.

When I told Mr. Whitten over on the House side that I was going to testify again this year, he said that was quite fine because he always enjoyed hearing from witnesses in hats, but he hoped I was going to bring some money along with me to help the appropriations process. I'm afraid I haven't been able to do that, but I do feel I am bringing something that is even more valuable than money which is the chance to reach the minds and the hearts of the American public.

In spite of the contempt with which the media often treat them, the people of this country are people who think and feel with both thoroughness and conviction when given the chance and the information. I think the very fact that they have elected and in many cases reelected the members of this subcommittee so often is an example of that.

However, they have had very little of either of these in the areas of food, agriculture, and rural development. Nobody in the media has given them a thoughtful, evenhanded picture relating to the three. Nobody has demonstrated the interdependencies of urban and rural life and the connections between what we eat, the land upon which it is grown and the people who grow it. This is precisely the task which we in our films have set out to do.

The vast majority of us who now live in urban and suburban America all too easily take the supply of abundant, inexpensive, high quality food for granted. And this, indeed, is our heritage for this land has always been blessed with great fertility and people with technological ingenuity. But our research has revealed that the overall economic well-being of this country is inevitably tied to the health of its agricultural economy, and that the land's richness, the scientists' technological brilliance, and the farmers' good will and hard work do not always guarantee this.

To focus national resources on the rural economy and on the farmer at this time is for all of us the most enlightened form of self-interest. I believe that our films will demonstrate this. They will relate the daily ritual of eating to the yearlong process of sewing, growing and harvesting, the secret lives of our breakfast, lunches and dinners. They will also look into the future to see what effects on our personal health and our national economic well-being, our relationship to the food we eat, and the people who produce it may have. Together our four 1-hour programs on American farming and food will give the public a comprehensive understanding of the simple statement we are what we eat, and a profound appreciation of the people and the processes that nourish us in the most basic and fundamental sense of that word.

I want to thank the committee for its support of this project and for the appropriation we received last year.

I also want to say that I feel we, the so-called producers of the series, are not doing it by ourselves. You have all become valuable collaborators in the process. The information which you and your staffs have shared with me, your wisdom, your wit, your challenges, your enthusiasm are as much a part of the films as the camera work, editing, scripting, and directing which we must supply. The impressive commitment which you all have to protecting America through protecting its farms, its rural landscape and its rural economy has been a continued source of inspiration for me, as has been the cooperation of the Department of Agriculture and its generosity in sharing its resources. Your belief in the importance of communicating on these issues to all Americans is essential to our success, and I hope you will be able to support us at the same level in fiscal year 1990.

Thank you.

Senator **BURDICK**. Thank you very much.

SUBCOMMITTEE RECESS

I apologize for having to leave this hearing early. I would ask the three witnesses that we didn't reach return at 1:30 to present their testimony.

Therefore, this concludes this morning's hearing. The subcommittee will continue the hearing this afternoon at 1:30 in the same room. The committee stands in recess.

[Whereupon, at 11:52 a.m., Thursday, April 13, the subcommittee was recessed, to reconvene at 1:35 p.m. the same day.]

(AFTERNOON SESSION, 1:35 P.M., THURSDAY, APRIL 13, 1989)

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

The subcommittee resumed at 1:35 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Bumpers, and Cochran.

Senator **BURDICK**. Good afternoon, ladies and gentlemen. This afternoon we continue our hearing reviewing the 1990 budget of Agriculture, Rural Development and Related Agencies.

I welcome all of the witnesses, and I would like to remind you that your written statements will be kept in a file by the subcommittee and will not go into the hearing transcript. Only your oral comments will be part of the transcript. Nevertheless, the written statements will carry the same weight as the oral comments. The subcommittee is taking this measure in order to reduce printing costs.

The witnesses are asked to limit their comments to 5 minutes. A stop clock is provided, so it will be appreciated if you could keep your eye on it and finish when the light turns red.

Our first witness this afternoon will be Mr. Max Peterson, executive vice president, International Association of Fish and Wildlife Agencies. Welcome to the committee, Mr. Peterson.

INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES

STATEMENT OF R. MAX PETERSON, EXECUTIVE VICE PRESIDENT

Mr. **PETERSON**. Thank you, Mr. Chairman. I hope the light being red now is not a premature signal. [Laughter.]

Mr. Chairman, this is my first opportunity to testify before your committee since I took off my hat as chief of the Forest Service. I am happy to see that you are still holding the fort as the committee chairman, and I am pleased to be here this afternoon.

Senator **BURDICK**. Thank you.

Mr. **PETERSON**. As you have indicated already, I am the executive vice president of the International Association of Fish and Wildlife Agencies. This association represents all the 50 State fish and wildlife agencies, including the good State of North Dakota. We are happy that we are going to hold our annual meeting in the neighboring State of South Dakota in September. So, we will get to enjoy part of that country.

Senator **BURDICK**. You're getting close.

Mr. **PETERSON**. We're getting close to God's country anyway, Mr. Chairman.

Mr. Chairman, let me highlight my testimony to indicate first, as you know, the international is very supportive of the Conservation Reserve Program, as you have been. We believe it would be improved if it were extended to include shelter belts and windbreaks and those types of activities that are important for fish and wildlife and are also important for protection of erosion from farmlands. We believe actually the current law can accommodate that, but it probably needs to be made crystal clear when the 1990 update is made.

We are concerned that ASCS, SCS, and other agencies that are associated with the Conservation Reserve Program have adequate funds in 1990 to provide adequate technical assistance. As you know, the target is for 45 million acres. The budget for 1990 includes technical assistance for only 40 million acres. So, we are concerned that the technical assistance matches the actual target. As I am sure you know, there have already been 28 million acres signed up with a little over 3 million acres now bid, and it's being considered for additional signup.

In addition to the requirements for ASCS related to the Conservation Reserve Program, we continue to support the Forestry Incentives Program which provides specific technical assistance and cost-sharing for farmers who want to plant trees.

We also support the Water Bank Program particularly at the increased level supported by President Bush.

Moving to the Soil Conservation Service, we are concerned that the technical assistance funding for SCS, particularly as it relates to the Conservation Reserve Program, be adequate to match the size of that program. I think that there is a misconception that now that the plans are completed, that somehow SCS' technical assistance role is over. As you know, Mr. Chairman, it is only beginning because as farmers implement those plans, they will need specific technical assistance.

Also, the sodbuster and swampbuster provisions of that bill are just now becoming effective. And so, if we are to prevent chaos in that program, it is important that that technical assistance be provided for that size program.

We are also pleased, Mr. Chairman, that the administration's budget this year contains the $4.2 million increase for animal damage control in the APHIS budget. Animal damage can be a real problem to farmers whose crops are involved, and the Animal and Plant Health Inspection Service can do much to reduce the problem that is associated with it with adequate funding.

Finally, the Extension Service budget is again proposed to be reduced by 10 percent. In my view, the role of the Extension Service in providing up-to-date information to rural America is one of the success stories in the country. And at a time when we see rural America recovering and we want to see rural America be a vital part of our economy, it is not the time to say, well, we can reduce Extension by 10 percent.

So, we recommend that adequate funding be included for Extension, and we are particularly concerned about the proposal to terminate the funding for the Renewable Resources Extension Act which provides again information to the farmers about tree planting.

That completes the highlight of my statement, Mr. Chairman. I would be happy to respond to any questions you might have.

Senator **Burdick**. Mr. Peterson, you have cited the need for adequate staffing of the Soil Conservation Service noting a 10-percent reduction proposed by the administration. If Congress had to go along with the President's request, what would the impact be on the quality and type of technical assistance available?

Mr. **Peterson**. I think what you would find is two things. You would find a delay in farmers receiving technical assistance because there would be simply more requests than could be serviced, so you would find a delay. Farmers then would be forced with either having to go ahead without technical assistance or delaying. So, I think it would really create a hiatus in implementing the plans as part of the Conservation Reserve Program.

Senator **Burdick**. How did you arrive at your proposal for an additional 75 field scientists to implement the Swampbuster Program?

Mr. **Peterson**. That was simply the best judgment of our States in looking at that provision. I am sure that more than that could be used. We tried to make very conservative recommendations for what we think is about the minimum that can do the job. And that is a very small number considering the size of that responsibility.

Senator **Burdick**. Thank you very much.

Mr. **Peterson**. Thank you, Mr. Chairman.

Senator **Burdick**. Our next witness will be Dr. Edward Kiggins, director, licensing and technology, Lubrizol Corp., Ohio, Midwest Plant Biotechnical Consortium. Welcome to the committee.

Midwest Plant Biotechnology Consortium

STATEMENT OF DR. EDWARD M. KIGGINS, DIRECTOR, LICENSING AND TECHNOLOGY, THE LUBRIZOL CORP.

Dr. **Kiggins**. Thank you, Mr. Chairman. And I want to thank you for the opportunity to testify.

As you said, my name is Ed Kiggins. I'm from The Lubrizol Corp. located in Ohio which is a specialty chemical company with the core business being in lubricant additives. However, we have a major interest in agribusiness as well since we sell planting seeds across the country.

And I might add also that we sell a specialty vegetable oil which is monosaturated that comes from sunflowers. And I believe I am correct in stating that our company is the largest marketer of sunflower seeds in your State, Senator, but that is beside the point.

Senator **Burdick**. No, that is not beside the point. That is a very good point. [Laughter.]

Dr. **Kiggins**. Thank you, sir.

Today I am speaking on behalf of the Midwest Plant Biotechnology Consortium. This consortium consists of universities, research institutes and industries in the Midwest.

The basic goal of the Midwest Plant Biotechnology Consortium is to offer a mechanism for technology transfer between industry, government and, of course, universities. We have been working with the USDA in this respect for some time now.

We are very grateful for the fact that Congress provided in 1989 $1.75 million to launch this program. And we have now submitted a management proposal to USDA for use of these funds and expect approval very shortly. And I should add that USDA has been very helpful in guiding us in the direction we're going.

And we are in the process now of soliciting research proposals, in fact, preproposals funded with this 1989 money. And so far, we have an order of magnitude of about 125 preproposals from 15 universities, which I think indicates the interest in this program by the Midwest universities.

The preproposals are being peer-reviewed by industry currently, and if they meet the criterion of excellence science and also have industrial relevance, then we will pick a number of these proposals to be developed in the full proposals. Then we will go forward with those.

The preproposals that are under review in large measure meet the criteria that industry has set for themselves to fund these programs as well. These proposals address such interesting topics as insects and disease resistance in plants, improving nitrogen use efficiency in plants, drought, heat and cold tolerance, and improved crop process systems. Hopefully these efforts over time would reduce the use of chemical pesticides, herbicides, and fertilizers and allow plants to thrive with less water, and probably most importantly provide new products from these crops and perhaps new crops themselves.

I would be remiss perhaps, Mr. Chairman, if I didn't mention a concern not only of myself but also of the consortium that I am representing today. And that is that ultimately to get products from agriculture utilizing biotechnology as a tool into commerce, they have to be field tested. And as you know, there is a considerable concern about field testing transgenic plants and microorganisms in the environment today. And hopefully, sound and sensible judgments would be utilized to make decisions based on fact to consider moving plants into the environment. And I would hope that Congress would use its sound judgment as they have so often in the past.

Certainly I want to thank the Congress for providing the seed money of $1.75 million in 1989 to get this program launched, but I would like to also request that the appropriation be increased to $5 million for this coming fiscal year. I know everybody has commented earlier that they want additional funds and I sympathize, Mr. Chairman, about where are you going to get this money. And I don't have an answer for it, and hopefully you do. But certainly the money that we are asking for would be put to good use in a cost-efficient fashion.

One of the real problems in plant molecular biology is the lack of knowledge of how a plant cell operates as opposed to the knowledge that is available on mammalian cells. So, we intend, hopefully, if we do get this increase in funds, not only to continue the program that has already been started, but also to add new programs as time goes by and to gain more information on how plant cells operate. So, we would hope, Mr. Chairman, that your subcommittee would approve these additional funds.

So, I thank you, sir, for the opportunity to testify.

Senator **Burdick**. Thank you.

The proposals that you mentioned—are they just for universities?

Dr. **Kiggins**. And two possible institutions as well. There are two research institutions in this consortium: the Michigan Biotechnology Institute, as well as Argon National Labs.

Senator **Burdick**. All the rest are universities.

Dr. **Kiggins**. The rest are universities, yes, sir.

Senator **Burdick**. Can you justify your request for an increase of $3,250,000?

Dr. **Kiggins**. Oh, yes, sir, absolutely. There is a tremendous need, as I indicated, to increase knowledge in plant molecular biology. Well, I shouldn't say it this way. There are less funds available for plant molecular biology than certainly there is in the human pharmaceutical field, and certainly that is justified. I wouldn't argue that at all. But the plant side is really suffering for lack of funds.

Senator **Burdick**. What specific projects are planned for completion in 1990 that will meet industrial needs? What projects will you begin in 1990?

Dr. **Kiggins**. Well, just to give one example perhaps. There is a possibility of producing enzymes rather than from microorganisms, but from a plant such as alfalfa. And I mention that only as an example. There is a very definite possibility that we can construct an alfalfa plant to make certain enzymes that will be valuable in industry. So, I cite that as just one example.

Senator **Burdick**. Thank you.

Dr. **Kiggins**. Thank you.

Senator **Burdick**. Our next witness will be Ms. Marcia Merry, National Democratic Policy Committee. Welcome to the committee.

NATIONAL DEMOCRATIC POLICY COMMITTEE

STATEMENT OF MARCIA MERRY

Ms. **Merry**. Thank you.

Senator Burdick and ladies and gentlemen, I want to make two points today extemporaneously to highlight what I have submitted for circulation to the committee because I think there is a very urgent matter, and I am asking you to consider emergency measures.

The two points are, first that there is such a need for food in the world, an emergency need, that it is not a matter of the end of surpluses, it's a matter of less food per person on the scale that will mean genocide, particularly with AIDS abroad in the land.

Now, I am recommending that the committee, therefore—the Appropriations Committee—consider and act on a shift from restrictions in agriculture output here on farming and so forth to a wartime style gear-up instead to promote and encourage more food. I think under the circumstances we face in the world that set-aside is genocide, and that low inputs per acre means low output of food, and that means a condemnation to death for many people. In other words, sustainable agriculture I think should not be funded. It is a fraud and immoral.

The second point I want to make is that regarding food shortages—and we have had some food riots in our country due to the lack of distribution by the Agriculture Department of so-called surplus foods. It has dried up. Due to these shortages, we are getting emergencies. We also may have energy emergencies and other things. But there is what I have to call a secret government in the wings that is hoping to use a pretext of such emergencies for abrogating lawful process, government, our constitution.

Because I am emphasizing this, let me get to the second point first and then end on the question of food today.

This question of the shadow government. Around the Federal Emergency Management Agency—it is called FEMA—there has arisen a whole grouping connected to the National Security Council that is doing lawful things. There is the Oliver North trial taking place in this town. Names are coming out, I mean, Second, I mean, many other people, including Mr. Revell, the second in the FBI. Similar things came out in connection with Lyndon LaRouche in the Boston case against him on which the lid was slammed shut.

Since then, for example, in the LaRouche case, an Agriculture Department person connected to this shadow government—his name is Buster Horton. He is the liaison of the Agriculture Department to the Federal Emergency Management Agency. He became foreman of a jury that was set up in Virginia in December, and they convicted LaRouche—he is now in jail—and sentenced him to 15 years, an incredible sentence for a man in his sixties. In other words, that is this secret government on the loose.

And the issue here is that this network should be investigated. It should be dismembered and dismantled. And I want to put to the committee that there is no need for emergencies around things like food, energy, this kind of thing because we could build our way out of the mess that our country declined into, and that the west in general is falling into.

That brings me back to the major point on food output. The best estimates are there are 500 million people in the world today that are malnourished. Thirty million in the United States, in fact, depend on some food assistance and so forth.

Now, what we really need is more food. There has been a decline in food output internationally in the last 5 years, a decline in land in cultivation, a decline in inputs per acre. So, you have less food.

Now, what do we think that the issue here is with more drought and weather instabilities—I mean, I don't have to tell you about the Missouri River basin—we need to compensate. We need to produce again, and this would also ameliorate these weather instabilities that we are getting.

So, the emergency measures that I put before you today to consider as a replacement for the food output restrictions that the Agriculture Department is bent on are the following. I will list them simply.

We need to return, like during the Second World War, to parity pricing, the kind of thing we had in the 1930's in North Dakota, if you remember.

We need to have a stay on farm foreclosures. The Farmers Home Administration is at it again. There were foreclosures under armed guard near Dickinson, ND, 2 weeks ago, Mr. Abramovich and many others. They should be stopped. We need a stay. We need those farms producing food.

We need low interest production credits especially for those who will be producing food.

We need to increase food distribution to the hungry in our country because unfortunately, during this great recovery, we have ended up with more people on food lines instead of less.

We also need a stay of these exports to the Soviet Union. They are at an unprecedented rate—the food and grain exports—pending a review of where the stocks of food are in our country and west, what condition they are in and how we should distribute them, just like we decided during lend-lease, who gets what and how will we produce it.

And we need to have an investigation of who is manipulating this crisis.

These are the emergency measures I ask. I know that if we do this, we could end the emergency that is before the country and the world.

Thank you very much. Are there any questions?

Senator **BURDICK**. Thank you. No questions.

Is Senator Melcher here? Why, sure, he is. Welcome to the committee, John.

STATEMENT OF HON. JOHN MELCHER, FORMER U.S. SENATOR FROM MONTANA

Senator **MELCHER**. Mr. Chairman, I have a fairly short statement that deals with two subjects. One has to do with APHIS, the Animal and Plant Health Inspection Service, and the other has to do with Public Law 480.

On the first matter regarding staffing of APHIS, I am helping the Society for Animal Protective Legislation, Christine Stevens, whom I think you are going to hear from, and the Humane Society of the United States.

First of all, let me read this short testimony.

The Animal and Plant Health Inspection Service must implement the regulations to carry out the 1985 amendments to the Animal Welfare Act. Those amendments, Mr. Chairman, as you may recall, were included in the farm bill of 1985. Although the regulations are yet to be finalized, it is the intention of the Department of Agriculture to complete the comment period in approximately 90 days and publish the final regulations before the end of this fiscal year.

The requirements of the amendments place a greater responsibility upon APHIS to inspect and regulate to more than 6,800 research facilities, animal dealers, exhibitors and international handlers and carriers. To carry out their duties, APHIS has 48 inspectors. APHIS hopes to expand the number to 70 with the requested funds, but candidly needs at least 100 inspectors.

The law requires unannounced inspections and contemplates two inspections per site each year. That cannot be accomplished with 70 inspectors, even though God might be willing and the creeks did not rise, without a great amount of some arrangement of compensatory time, overtime or borrowing inexperienced, unqualified inspectors from some other functions where they are probably needed.

It should be the Department of Agriculture making this case that I am making today, but with the budget formalities being the rule, no one from the administration can vary from the administration's budget path.

But I do know what Congress enacted in the 1985 Animal Welfare Amendments, and I do know what the minimum requirement is for inspections. It will take 100 or more inspectors full time and then God willing and the creeks don't rise, they may be able to make the required inspections. I am not certain that 100 is enough, but I do know that the 48 they now have and the additional 22 they hope to get to make it a total of 78 inspectors is far short of what is needed.

For that reason, I am strongly recommending to the committee that an additional $2.4 million be added to the APHIS appropriations to cover 30 more inspectors. The Department of Agriculture expends on each inspector $80,000 for salary, transportation, travel expense, training, support, fringe benefits, and backup. And the $2.4 million would just cover the 30 additional inspectors needed to meet the additional duties of APHIS.

I have submitted a list of organizations and businesses that support my testimony.

The second matter deals with Public Law 480. First of all, the title I appropriations cannot be allowed to be cut, as the administration recommends, but must remain at least at the same level as during this fiscal year.

Because the reflow into the Public Law 480 account last year was greater than expected, the administration has requested less money for Public Law 480 for fiscal year 1990.

There are at least four reasons why the appropriations should not be cut.

Commodities cost more this year than last year and to maintain the same level for the title I program will require a higher appropriation.

Second, shipping costs are higher now and are projected to be higher throughout fiscal 1990.

Third, the Export Enhancement Program has been used extensively through 1988, but according to Secretary Yeutter, EEP will not be used very extensively the balance of this year nor in fiscal year 1990, which means that title I should be used more since it is a very successful agricultural trade enhancement provision over the past 35 years.

Trade expansion is essential for the U.S. economy, and title I is a tried and true method of sound business for American agricultural trade expansion. The U.S. trade imbalance can be helped by a greater use of title I in fiscal year 1990. This is the unique ongoing program for agricultural trade expansion. It is a program that neither turns on with the crop surplus nor turns off with drought. For that reason, it is a consistent tool to build and expand U.S. agricultural trade.

I, therefore, urge that title I fiscal year 1990 appropriations be at least at the same level as fiscal year 1989 appropriations which would allow for the 1988 reflow funds to take up the slack of higher commodity and shipping costs and, therefore, at least maintain the same export level of the commodities exported under title I.

That will permit title I to be used as the consistent trade builder it has been over the past 35 years.

And not to be forgotten or ignored are the urgent emergency needs of title II of Public Law 480. The creeping costs of commodities and the greater shipping costs of shipping cannot be avoided. That means in order to maintain minimum tonnages, that upward adjustments in the administration's budget proposal are necessary. The amount requested for fiscal year 1990, although slightly more than fiscal year 1989 funding, is still $50 million short of the actual fiscal year 1988 budget authority. The still unmet food needs in Sudan and other African countries, together with higher costs, require an increase in title II funding.

Mr. Chairman, I briefly want to say that while budgetary restraints are tight, there is no sense in cutting these programs. We are not going to get out of the doldrums we are in on the trade imbalance without going after the trade of agricultural commodities.

Second, I'm of the opinion, which is shared by many I feel, that there are two sides to this economy we have. If we are going to maintain a healthy U.S. economy, we are simply going to have to overcome the trade imbalance. And you can't buy this type of economic activity we have had in the United States together with that trade imbalance and maintain a sound U.S. economy without correcting the trade imbalance. Agriculture is just part of correcting that, and one of the best ways we can do it is through the Public Law 480 program.

Senator **Burdick**. Thank you very much.

Senator **Melcher**. Thank you.

Senator **Burdick**. Just a minute, Senator.

Senator Cochran, do you want to ask a penetrating question?

Senator **Cochran**. I don't have any questions. Senator Melcher, it is great to see you again.

Your testimony will help us as we review these issues under our jurisdiction. You have been a very strong supporter of Public Law 480 and some of our other export partnership efforts between Government and the producers and the exporters. We want to ensure that we claim a greater and greater share of the world market and also that we are able to move into the fields of commerce what we produce on the farms and on the ranches of the United States.

We appreciate your taking time to be here and look forward to working with you in getting more ideas from you as we develop our bill this year. Thank you very much.

Senator **Melcher**. Thank you both very much.

Senator **Burdick**. Senator Cochran, you will run the show for about an hour now, will you?

Senator **Cochran** [presiding]. Our next witnesses are Dr. Allison Yates, dean of the College of Health and Human Sciences, the University of Southern Mississippi; Dr. Charlie Clark, who is assistant vice chancellor of the University of Mississippi; and Dr. Shelby Thames, professor of polymer science at the University of Mississippi. If all of you could come up to the witness table. We welcome you to our hearing.

The subcommittee is in the process of reviewing the President's budget which he submitted to the Congress as he does every year. We have heard from agency witnesses and representatives of the Department of Agriculture and Related Agencies. So, we are getting now the viewpoint of those who are interested in specific activities that are funded in the bill or who have a viewpoint on some activity that is related to the jurisdiction of this subcommittee. So, you help us by being here. We appreciate your presence, and I am particularly glad to see fellow Mississippians here at the witness table for our hearing this afternoon.

You may proceed in any order that you wish and make your presentations to the committee. We are limited by time constraints, and I think you have already been advised of that by the staff. We have a number of witnesses who will be appearing later in the afternoon, so we want to have time for their testimony as well.

UNIVERSITY OF SOUTHERN MISSISSIPPI AND UNIVERSITY OF MISSISSIPPI

STATEMENTS OF:

DR. ALLISON YATES, DEAN, COLLEGE OF HEALTH AND HUMAN SCIENCES, UNIVERSITY OF SOUTHERN MISSISSIPPI

DR. CHARLES CLARK, ASSISTANT VICE CHANCELLOR, UNIVERSITY OF MISSISSIPPI

DR. SHELBY F. THAMES, PROFESSOR, DEPARTMENT OF POLYMER SCIENCE, UNIVERSITY OF SOUTHERN MISSISSIPPI

Dr. YATES. I think I will start then.

Senator Cochran, ladies and gentlemen, I am Dr. Allison Yates, dean of the College of Health and Human Sciences at the University of Southern Mississippi. I am a nutritionist and a registered dietitian. I am representing Dr. Aubrey K. Lucas, president of the University of Southern Mississippi. We appreciate the opportunity to testify this afternoon.

We would like to thank the committee for its continued support of the child nutrition programs. Specifically, we appreciate the time and effort that the committee has devoted to the development of the concept of a national school food service management institute and the funding provided to date for the feasibility studies.

Over the last year, we have worked hard and I think successfully to demonstrate that Mississippi has the ability to be the site of the institute. The feasibility study for a national school food service management institute submitted September 1, 1988, to the U.S. Department of Agriculture concluded that based on the needs assessment conducted, the institute would be a cost-effective method of meeting the demonstrated needs of school food service and nutrition programs, that it would provide a mechanism to coordinate and improve the work and training of school food service personnel, and that it would allow coordination and planning of applied research, training and technology transfer, as no vehicle currently exists to do this.

The feasibility study provided numerous examples of research and development priorities, of needs for transfer of this applied research to the user and food service sites and of gaps in existing State programs in curriculum development and training.

In determining a site for the institute, the National Advisory Committee developed criteria for a site and the feasibility study recommended that the University of Southern Mississippi and the University of Mississippi cooperate in providing the programs of the institute. Both the Provost of the University of Mississippi, Dr. Ray Hoops, and I, with the concurrence of our Presidents, have worked to this end and have developed a proposed framework under which the national institute can develop utilizing the expertise and strengths of both universities.

In the prepared statement which we have submitted, I have discussed some specific examples of types of problems that can be addressed in the areas of applied research and technology transfer, training and curriculum development. Dr. Hoops' representative, Dr. Charlie Clark of the University of Mississippi, will testify next regarding additional support available at the University of Mississippi.

The institute as envisioned would initiate a process to coordinate the search for answers to the applied problems faced daily by school food service units, their administrators, directors, and personnel and to translate these answers into realistic solutions by providing technical expertise and assistance and by communicating such information via training and development to school food service units. Specific examples include the following: development of standardized educational requirements for school food service directors, development of purchasing standards for products to meet the dietary guidelines once interpreted by USDA for children, evaluation of new commercial food processing systems for applicability to school food service operations, and assistance to industry to develop new equipment and food service designs to enhance productivity and decrease cost.

We are asking for $500,000 for fiscal year 1990 to put into operation the USDA-funded institute and initiate the work of advisory groups, training and curriculum development efforts, and prioritization of applied research and technology transfer areas. This would allow the institute to be fully operational by fiscal year 1991.

The long- and short-term goals of the institute to increase cost-effectiveness and quality of food service are in concert with your interest in seeing increased accountability.

Thank you, Senator, for this opportunity to meet with the subcommittee about the proposed national school food service management institute. We would appreciate the subcommittee making this statement a part of the hearing record and our prepared statement available for the deliberations of the subcommittee.

Senator COCHRAN. Thank you very much, Dr. Yates. We appreciate your comments, and we will now hear from Dr. Clark.

STATEMENT OF DR. CHARLES CLARK

Dr. CLARK. Thank you, Senator Cochran. Good afternoon, sir.

At the University of Mississippi my responsibilities include the coordination of professional outreach programs, public service programming, that emanates from the University of Mississippi. That includes training for lawyers, judges, engineers, and food service managers.

I appreciate the opportunity to support the concept of the creation of the School Food Service Management Institute which we hope will be located in the State of Mississippi.

Dr. Yates, my colleague from the University of Southern Mississippi, has previously pointed out some of the specific research needs and the capabilities of the USM faculty. My remarks, Senator, will primarily be devoted to the education and training aspects of this particular area.

The University of Mississippi has been conducting food school service management training since 1946. A noteworthy strength of the University of Mississippi was pointed out in the feasibility study which was submitted September 1. I would like to quote just a few lines from that feasibility study.

> Because of the national role of the Institute, it is conceivable that opportunities will exist in the future for cooperation between the two institutions in Mississippi and among institutions across the Nation with faculty expertise in institution management, foods and nutrition. The opportunity that is most obvious for cooperation between two institutions in Mississippi is in the area of training activities. The University of Mississippi has a long history of successful training for food service personnel and a track record for effective administration of such programs.

As the training segment of the national institute, it will be our mission at the university to address the problem of disseminating factual, uniform information through standardized training and education. We propose to establish a national training center utilizing the latest technological developments to include the dissemination of information by satellite to schools with down-link networking capabilities. The Star Schools project, which is already in place on our campus, will permit interactive distance learning as one method of information dissemination.

There will be some training which necessarily must be conducted on our campus. Our university can accommodate groups from 10 to 300 in a training environment. We have the equipment, the classrooms, housing accommodations, and the experience to conduct this national training institute.

Further, we anticipate the publication, printing, and national dissemination of brochures, pamphlets, and newsletters which bear directly on improving the quality of nutritional management in this country.

We look forward to cooperating with our sister institution, the University of Southern Mississippi, in accomplishing these missions.

Thank you, sir.

Senator COCHRAN. Thank you very much, Dr. Clark.

Let me just make a comment or two on this subject before we proceed to hear from our next witness on another subject.

I think this institute is a wonderful idea. There is no doubt in my mind that it is a needed function. We need to train school food service managers and those who are entrusted with the responsibility of providing safe, nutritious meals to schoolchildren throughout the country, and also to manage the financial aspects and the personnel aspects of that kind of enterprise. We have hundreds of people employed in school cafeterias and other feeding programs, and many of them have not had an opportunity, a chance, to learn management skills and otherwise become as qualified as they could be in dealing with this great challenge. It is important to our schoolchildren.

It is important to the efficiency of the program as it operates around the Nation. We are in a budget crunch. We have to be sure that the money that is being spent in these activities is being used in a careful way. We want to be sure we get everything we can out of each school food dollar. The taxpayers insist on it, and they ought to.

So, this could help in that way, and I am very happy to see that both the University of Southern Mississippi and the University of Mississippi are working together to try to help shape the development of an institution for research and training that could really make a big difference. I thank you and congratulate you for the leadership you are showing in this, and I hope the subcommittee will be able to respond with funding at an adequate level to get this started. I think that would be wonderful.

Dr. **Clark**. Thank you, sir.

Senator **Cochran**. Shelby, we would be glad to hear from you. We know that you have something to tell us about the Polymer Science Institute there at the University of Southern Mississippi, and we look forward to hearing from you.

STATEMENT OF DR. SHELBY F. THAMES

Dr. **Thames**. Thank you, Senator. I appreciate the opportunity to be here today. My name is Shelby Thames, and I'm professor of polymer science at the University of Southern Mississippi in Hattiesburg. I would like to ask that my statements today would become a part of the official record, and I have submitted a written statement.

Senator, I am one of those teachers that like to show because I feel that if one sees, one appreciates and one understands. So, if you don't mind I am going to run a couple of experiments here for you here today. I am going to take this very small amount of polymeric material which is, by the way, from an agricultural product. This is cornstarch, and I am going to add that colored water. And I use colored only to show you, sir—and you see it has jelled already. Water became all of a sudden a gelatinous mass. I use color only to show you—it is easier for you to see. So, we'll get back to that, but I wanted to do that at the outset. It might have taken a little bit longer than a few seconds.

Senator **Cochran**. It is not going to blow up before this thing is over.

Dr. **Thames**. I wanted you to be comfortable.

Senator **Cochran**. All right, thank you.

Dr. **Thames**. I do appreciate the opportunity of being here, and on behalf of President Lucas and our entire university community, I want to thank you and other members of the subcommittee and other members of our delegation, Senator Lott and Chairman Whitten. Without the help of all of you all, we would not be in the position that we are in today.

And that position is we had, as you know, a groundbreaking last August in 1988, and our facility has risen from the ground during that time. I have a photograph here which I will leave, and you can look at it another time to show the progress that is being made. So, we anticipate the completion of this facility about August 1990. I talked to the architect on site about 2 weeks ago. He said that everything was moving along as scheduled. So, again, we appreciate your help.

I wanted to share with you today some of the research that is ongoing now and that will continue to be ongoing in this new polymer research facility, some of which I have just demonstrated to you. That is a starch derivative that has been polymerized and grafted and made into a material that can absorb 20,000 times its weight in water. It is used for a variety of products, in paints, in cosmetics, in diapers, and many other applications. It can be used to coat seeds and hold moisture so that it will germinate properly, to carry insecticides and pesticides and miticides. It has terrific application in the agricultural arena. And by the way, it is a natural product. It is not a petroleum-based product.

In addition to that, Senator, we are interested at the university in a product called Guayule. You and I both know what an azalea bush looks like, and the Guayule bush is reminiscent to me of a very large azalea bush. It has somewhat of a silvery color. And when that bush is about 4½ to 5 years old, it stands about 5 feet tall. And it can be taken from the ground. It can be ground up and extracted, and from that can be obtained natural rubber. Natural rubber is cis-isoprene.

When you need natural rubber, nothing else will suffice. There is a lot of synthetic rubber available, but it doesn't have some of the fine, unique qualities that natural rubber has.

Our country does not have a domestic natural rubber industry. We import all of our natural rubber from abroad. We need to become self-sufficient. It is a strategic material. For instance, Guayule rubber from the bush in Arizona, Texas, and New Mexico was used to produce this F–4 tire. This is a front tire on an F–4 fighter. And I wanted to bring it here to show it to you today.

In order to make this an economically feasible industry, not only do we have to find use for the rubber, which we have by the way—ample use for that—but we must find uses for the coproducts which accompany the isolation of the rubber. And that is where we come in in our work. We are coproduct development specialists. At the present time we are taking the low molecular weight fraction of rubber, not this rubber, but the low molecular weight fraction, and we are generating chlorinated rubber. That is a product which sells for about three times the price of the natural rubber that we are ultimately looking at.

So, there we are developing an economy of scale. We are using the coproducts which would otherwise be thrown away, and we are contributing that to the total selling price of the Guayule materials that you gain from the extraction process. We think that that will help make this an economically feasible crop.

In addition to that, we have developed what we call adhesion modifiers, strippable coatings. The military uses coatings to spray on aircraft, tanks, and what have you to put them in mothballs, and then when they get ready to bring them out of mothballs, they want to be able to take that coating off quickly. Well, they can take these strippable coatings and pull them off with their hands.

It doesn't require any solvents. It is very quick, and it is very inexpensive.

So, those are just two areas. Time limits me. I can't go into all of them. But I wanted you to know that those are two areas that we are working on now dealing with agricultural materials. There are many more that need to be looked into. And, of course, with this new facility, we intend to do that.

Finally, Senator, I want to request an appropriation of $2.7 million for this coming fiscal year to close out, to complete, the project, the construction project, as well as the equipping of this facility. We know that your funds are limited, but we certainly would appreciate that.

I would like to ask too that you and your committee give consideration to extending the enabling legislation for the Critical Agricultural and Material Act and that additional funds be put into that act if at all possible, sir. It is an act which contributes to the research that we have talked about here and other industrial crops. Not only will it be important to Mississippi, but it would be important to the entire agricultural economy of the United States.

We appreciate your time, and thank you for allowing me to be here, sir.

Senator COCHRAN. I appreciate your testimony, Dr. Thames. You are as always very eloquent, very thoughtfully prepared, and we will benefit from your comments very much.

Certainly, we will understand what polymer science is with your graphic demonstrations there of these two examples of research where we are using our natural resources to help create materials that are needed in industry or business or for national security or other purposes. It gives us an example of why research like this is so important to our country.

I hope that we can get the support of the committee for the full amount of the appropriation. As I understand your testimony, this will wind up the construction and equipping of the facility at the University of Southern Mississippi.

Dr. THAMES. Yes, that's correct.

Senator COCHRAN. I am glad we have reached this point. I know it has been a long road and a long journey, and you have been the wagon master, the leader of the train, that has led us to this point. I want to congratulate you for that fine leadership and commend you and your colleagues at the University of Southern Mississippi for the work that you continue to do in this important area.

Dr. THAMES. Thank you, Senator. We appreciate your help very much.

Senator COCHRAN. Thank you all for being here as a panel to testify before our committee today. We again thank you and appreciate your being here.

Our next witness will be Mrs. Meta Hoge, who is director of the Consumer and Education Department of the American Home Sewing Association in Greenville, SC. You may proceed.

AMERICAN HOME SEWING ASSOCIATION

STATEMENTS OF:

META HOGE, DIRECTOR, CONSUMER AND EDUCATION DEPARTMENT, COATS AND CLARK

JOHN CHWAT, CHWAT/WEIGEND ASSOCIATES

Ms. HOGE. Thank you. My name is Meta Hoge, and I am director of the Consumer and Education Department for Coats and Clark based in Greenville, SC. I am accompanied today by John Chwat who represents the American Home Sewing Association in Washington.

I am appearing before you today on behalf of the American Home Sewing Association regarding the Extension Service fiscal year 1990 funding. Morris Jarvis, president of Hancock Fabrics in Tupelo, MS, is chairman of the American Home Sewing Association's Legislative Committee. Our association represents the entire home sewing industry, including manufacturing, retailing, wholesaling, and publishing.

Last year in testimony before this subcommittee, our association detailed a unique private-public sector program we initiated with the cooperation of the USDA's Extension Service entitled Sewing as a Business. At that time, we supported a sewing education program designed to assist the sewing entrepreneur in establishing a profitable home-based business. Nationwide there are thousands of people involved in clothing and textiles Extension Service programs. The State of Mississippi hosted the pilot project because of its low per capita income and unemployment rate. I am proud to say that the project was a resounding success.

Attached to my statement is a report and other materials on the project. I ask your permission to include them in the record of this hearing.

Senator COCHRAN. We certainly will be happy to receive that and make it a part of the subcommittee's file.

Ms. HOGE. Thank you.

During 1988 the six workshops around the State included 123 attendees. Well over 500 Mississippians applied to attend the pilot project. The response was overwhelming. The following testimonies from participants detail the impact this project has had on each of their lives.

One participant said, "I think attending the workshop and knowing the pricing structure for the sewing that I do has helped me realize that I can charge more for my services and contribute to the family income in a more significant way than I thought was possible."

Another participant's small, part-time sewing business has turned into a nationwide operation as a result of the project. She said that one of the things she wanted to know from the class was where to find contacts. I think that is what everybody who has a home-based business wants to know, and the class has done that. We put her in touch with Viking-White Sewing Machine Co. and it has just mushroomed from there. She now employs people and that was her goal.

A third participant said, "There has been lots and lots of months that sewing money went to pay our groceries and to pay our utility bills and to supply the needs that our children had because we didn't have enough money left out of the milk check to supply those needs. If it hadn't been for sewing, I have no idea what we would have done."

The Mississippi Extension Service project increased the income of its participants. In my statement I've included a list which illustrates the rise in their incomes which for some of them was as high as $17,000 a year more.

Increasing family income, providing job skills and assisting in the establishment of home-based business were the objectives of the Mississippi project. Our association recommends that the pilot project in Mississippi be continued and expanded to South Carolina and Alabama in the fiscal year 1990. Both States have indicated an interest in starting the program but lack the resources to do so.

In regard to the fiscal year 1990 Extension Service budget, we recommend full funding for the Extension Service at the same level appropriated by Congress last year, no reductions in staffing, programs, or funds especially in the Smith-Lever 3(d) area.

Second, to insert a directive in report language and provide sufficient funds to the Extension Service so as to not eliminate clothing and textile specialists and their clothing and textile individual State programs around the country.

And third, the Congress should dedicate funds in the amount of $180,000 for a rural business opportunity development clothing and textile project, patterned after the 1988 Mississippi project. These funds should be dedicated in equal amounts for pilot projects in Mississippi, South Carolina, and Alabama.

Thank you, Senator.

Senator COCHRAN. Thank you, Ms. Hoge. We appreciate your testimony.

Mr. CHWAT. Senator, I just want to ask permission if we could insert two letters. One letter refers to income projections in the testimony that Meta just gave. It's a letter from Beth Duncan, Extension clothing and textile specialist in Mississippi, indicating their permission that their income levels be used in the testimony. So, I would like to give that, if I could.

And the second one is an April 1989 article by Linda Moore regarding Hattie McKenzie from McComb, MS, on how she has benefited from the program. I would like to insert that too, if I could.

Senator COCHRAN. We appreciate having those items, and we will include those in the files of the subcommittee.

I appreciate your telling us about the results of this pilot program. I can remember meeting with some of you and your colleagues to discuss this last year and also to help get legislation enacted by Congress that celebrated sewing month last year. That proved to be a success, because it attracted attention to this as a whole new way of life for many people who might not have otherwise considered the benefits of sewing at home and learning this new element of home economics.

When I was growing up in Mississippi, we had a home economics class, but we also had, as part of the Extension Service, home demonstration projects of various kinds that helped rural families and those in small towns do a better job of managing their business affairs, managing family budgets, and that kind of thing. It is so important to continue to realize the way that can benefit a lot of people in our country.

So, I congratulate you on the work you are doing, and I assure you that we will bring this to the attention of the other members of the subcommittee as well. I hope we can get the support for the appropriation.

Tell me exactly what the money is used for so we will have a full record on that. You asked for $180,000 for the rural business opportunity project. What will you do with the money, or who gets that money?

Mr. CHWAT. Senator, if I could answer that. The program that was signed jointly between Extension, USDA, and the Home Sewing Association—it was a joint project, private-public sector funding. The home sewing industry provided $12,000 in 1987–88, and the Extension Service provided $6,000.

The rest was picked up by the Mississippi Cooperative Extension. Dr. Marilynn Purdie in Mississippi estimated that the six seminars and the whole project is about $60,000. That is what it would cost. We have received expressions from Judith Klein who is an Extension clothing and textile specialist in Clemson University in South Carolina and a similar one in Alabama, and we feel that if the Mississippi project just with the six seminars just for the next fiscal year would continue in Mississippi and in South Carolina and Alabama, it would be 60, 60, and 60. And that is where we came up with the money.

Senator COCHRAN. I see. I appreciate that explanation, and we hope that we can get that done. Thank you very much for being here.

Mr. CHWAT. Thank you.

Ms. HOGE. Thank you.

Senator COCHRAN. Next on our agenda is the Federation of American Societies for Experimental Biology. Dr. Sanford Miller who is dean of the Graduate School of Biomedical Sciences at the University of Texas is our witness. Welcome, Dr. Miller.

FEDERATION OF AMERICAN SOCIETIES FOR EXPERIMENTAL BIOLOGY

STATEMENT OF DR. SANFORD A. MILLER, DEAN, GRADUATE SCHOOL OF BIOMEDICAL SCIENCES, UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO

Dr. MILLER. Thank you, sir. Thank you, Mr. Chairman.

I need to make just one correction for the record. I am dean of the Graduate School of Biomedical Sciences of the University of Texas Health Science Center in San Antonio, TX. It makes a big difference to my colleagues.

I also until 1987 served as director of the Center for Food Safety and Applied Nutrition at the Food and Drug Administration.

Today I am appearing before you on behalf of the Federation of American Societies for Experimental Biology. The federation is composed of seven societies with 30,000 members directly engaged in biomedical research, including the nutritional sciences. I am here today to address several specific programs. Although they are relatively small within the overall USDA budget request, they are of great importance to the American public who benefits from biological research directed toward food and health.

I refer first of all to the Competitive Grants Program under the Cooperative State Research Service. We urge that the Competitive Grants Program be supported at least at the $63.5 million level requested by the administration.

Second, under the Competitive Grants Program, we urge that funding for the human nutrition requirements program be increased to $5 million to restore this essential successful program which has been dangerously diminished by successive budget cuts.

Third, we urge that under the marketing and inspection programs, the Animal and Plant Health Inspection Service [APHIS] receive funding sufficient to enable consistent, effective implementation of the new requirements for laboratory animal care imposed by the Congress.

Now, our federation does not often seek the opportunity to testify before your subcommittee on the USDA budget request. We do so now because of serious concern over these programs.

The Competitive Grants Program differs in nature from much of the rest of the USDA budget and must be considered from a different perspective. I know that in the past there have been differences over the value of basic as opposed to applied research. In my view this is a nonproductive argument. All biological research ultimately helps human well-being. The unique value of the competitive grant peer review process is that in this period of budgetary stringency, it offers the assurance that the best and most needed health and agricultural science is being supported. For these reasons, we strongly urge that the Competitive Grants Program be funded at the request level of $63.5 million.

However, within the Competitive Grants Program, we strongly urge that the programs for animal science, plant science, and biotechnology be funded at least at the request level. However, I would like to draw particular attention to the program of grants for the study of human nutrition requirements with which I am most familiar. This is a small program whose support has been declining. Last year it was threatened with termination, but after hearing from many individuals and groups, Congress decided it deserved to be continued. Unfortunately, at that late stage in the appropriation process, it could not be restored to its previous level of funding and was funded at only $1 million.

I believe the challenges to this program are based largely on a misunderstanding of its nature. Reduction or elimination were rationalized on the grounds that nutrition research is abundantly funded elsewhere: within the NIH or within the USDA's Human Nutrition Information Service, or in labs supported by the ARS. All of these entities do valuable work, of course. But the human nutrition research funded by competitive grants does not in any way duplicate their efforts. None of these other programs is charged to seek out the best available science regardless of location which enlarges our basic understanding of human nutrition requirements. Only this program seeks to resolve the unknowns providing findings from both land grant and other institutions which can then be applied to practical research on human requirements.

We are now in a time of unparalleled public interest in nutrition and its effects on the individual and family. Yet at the same time profound differences in the scientific and medical community concerning the nature of human requirements make difficult the development of useful quantitative advice to the public. To a significant extent, this is the result of a famine for research and human nutrition requirements. In such situations, opinion replaces fact and controversy and confusion result. As the Government agency most closely identified with production, processing, and distribution of food, it is appropriate that USDA be in the forefront of the effort to increase our basic understanding of our nutrition requirements.

If USDA is to meet these obligations, the level of funding for the Human Nutrition Program of competitive grants must be restored to a level adequate to encourage productive research and useful answers. We believe that minimum level necessary to be $5 million which represents an increase over the request of $3 million and was the original level of funding for nutrition when the Competitive Grants Program was established and funded in fiscal year 1978.

Turning to another subject, I would like to address the funding of the Animal and Plant Health Inspection Service. As you know, Congress in 1985 enacted amendments to the Animal Welfare Act which provide for much more intense regulation of the care and use of animals used in medical research. APHIS is still struggling with the problems of establishing appropriate implementing regulations. Whatever the final form the regulations take, it is clear that APHIS will require additional resources to carry out the new mandate imposed by Congress. APHIS conservatively estimates that compliance will cost research institutes over $1 billion in the first year.

Given this diversion of research funds, research must not be further hampered by any inability of APHIS to assure uniform implementation of the regulations due to funding shortfalls. And yet, we note that despite the magnitude of the new responsibilities imposed on APHIS, the request to assure uniform compliance is only $1.4 million above this year's level for animal welfare. It is clear that additional funding will be required as the regulations are implemented. Any increases for the APHIS animal welfare program should be clearly designated to cover additional requirements stemming from the new congressional mandate.

Mr. Chairman, I thank you for this opportunity to appear, and I am prepared to answer any questions that you may have.

Senator COCHRAN. Thank you very much. Dr. Miller, your testimony is certainly important to us, and your observations about making sure that we devote enough resources to human nutrition research, I think, are well taken.

We do have some centers that have been built at Tufts and at Baylor and North Dakota. These are for specific kinds of nutrition research with the elderly or children. Your suggestion is that we need to have also as much interest in unspecified human nutrition research at other institutions, that this is valuable too and important.

Dr. **Miller**. That's right, and specifically that this research be generally directed toward the problem of resolving what are human nutrition requirements.

Senator **Cochran**. Yes.

Dr. **Miller**. It is difficult to give adequate and acceptable advice to people when you really don't know what you are talking about. Unfortunately, that is what too many people are doing.

Senator **Cochran**. Right. Well, this is a good point that you make. I notice that last year when we were working out the numbers in the competitions research grants area, $1 million was allocated for human nutrition. You make that point. The $3 million that is in the budget would be considerably over that. But $5 million is what you would consider to be a more appropriate and realistic level.

Dr. **Miller**. And that $5 million actually represents the same dollar amount that was appropriated in 1978 for the same task, and there is a considerable lot of water under the bridge since then.

Senator **Cochran**. Right.

Well, thank you very much for taking time to be here, and we appreciate having your testimony.

Dr. **Miller**. Thank you.

Senator **Cochran**. Our next witness is Ms. Christine Stevens, representing the Society for Animal Protective Legislation. Ms. Stevens, we are glad to see you, and we welcome you again to our subcommittee hearings.

Society for Animal Protective Legislation

STATEMENT OF CHRISTINE STEVENS, SECRETARY

Ms. **Stevens**. Thank you very much, Mr. Chairman. I am very glad to be here.

Senator **Cochran**. We saw you at our confirmation hearing of the new Secretary. I remember that you were in the audience on that occasion when Secretary Yeutter was being questioned by the Agriculture Committee in preparation for confirmation.

Ms. **Stevens**. That's right.

Senator **Cochran**. It is good to see you again.

Ms. **Stevens**. Thank you very much. I am here hoping that we can increase the amount of the appropriation for APHIS to enforce the Animal Welfare Act with the improved standards for laboratory animals amendments which, as you know, were passed by Congress in 1985. And I appreciate some of the remarks that the preceding witness made about the importance of providing sufficient funds so that that law can finally be implemented and made real because so far the regulations haven't come out in final form, and there isn't sufficient funding to make possible adequate numbers of inspections.

I would like to highlight. Perhaps I could submit my statement for the record, but make a few of the particular points that I think are so important.

I think $2.433 million in addition would make it possible to have an average of two inspectors for each State. Now, if you look at the numbers of sites that they have to cover, that is very, very modest request. Indeed, it may not be enough, but it is what we are asking for at this point with the new reorganization which hasn't been tested yet to see how it is going to work out now that they have full-time inspectors instead of using veterinary services and having a much larger group to call upon, but using each one as they may become necessary. So, this is something that we don't yet know how it is going to work.

But meantime, we are very much concerned that there aren't going to be enough inspections. There are only 48 inspectors right now who are trying to conduct the minimal two inspections per year necessary to implement the law fairly and effectively. To put a qualified inspector in the field, including salary, training, and backup, it is estimated at $80,000 to $85,000 a year. And it is based on that that we are asking for the additional money to bring it up to $10 million.

I would remind you of the excellent statement which the Senate and House conferees made in the conference report last year concerned about the possible effect of Animal and Plant Health Inspection Service's planned reorganization may have on program delivery units of the Animal Welfare Program. And we were very pleased to see that the conferees expect APHIS to continue to consult with animal welfare groups during and after the implementation of the reorganization to ensure that a more effective animal care program is established.

The conferees will expect not only an improvement in the quality of the inspections, but an increase in the frequency of those inspections. And as it stands, Mr. Chairman, that cannot possibly happen. You can't have an increase in frequency when you only have 48 inspectors for the whole United States. No matter if they were on magic carpets, they still couldn't manage it.

And also, the conferees made a reference to the delay in issuing the regulations. Those have now been published as proposed on March 15. We hope that in the very near future parts one and two will be published as final regulations, as they long since should have been.

Now, I would like to submit for the record the book "Beyond the Laboratory Door," because it shows so clearly why it is that one has to have repeated unannounced inspections. The 1985 amendments require that if a deficiency is found or any kind of a violation of the law, inspections must continue until everything is corrected. And in "Beyond the Laboratory Door," we have many samples. Two pages—or actually four pages of the book—two pages are attached on the back so that you can have a sample of how laboratories that are getting at least $10 million and often much more than that from the Federal Government still simply don't even keep reasonable sanitary standards, can't keep the drains cleaned, have the animals in cages far too small, just elementary mistreatment of animals.

So, it means that a further inspection must be made until they are all corrected, and that means that another institution is going to only have one inspection. One inspection is a very, very dangerous thing to establish. The value of APHIS inspections depends in large measure on the fact that they are unannounced. That is the only way to ascertain how the animals are really being treated when no outside observers are present.

But if lack of adequate funds reduces inspections to one per year—and this idea has surfaced several times within USDA, and we have tried to discourage it—then all licensees and registrants, once they have got through an inspection, know that they are free to violate the Animal Welfare Act with impunity for the next 12 months. And certainly that was not the intent of Congress, and I know your intent, Mr. Chairman, in seeing that this law was passed in 1966 and amended in 1970, 1976, and 1985.

So, again, I would reiterate that we strongly urge an appropriation of $10 million for fiscal year 1990.

And I would like to submit a letter signed by a large number of major scientific organizations and humane organizations that support this mutually. They all would like to see the $10 million. And I would very much hope that you will be able to see your way clear to doing that.

Senator COCHRAN. Thank you very much, Ms. Stevens. I appreciate the comments and observations that you make. The material that you have given us will also be helpful to us as we review this issue.

I am told that when APHIS was here before the subcommittee, questions were put to them about these regulations, and their response was that they were in the final stages of actually getting these final regulations out, and that they would be out soon. Nailed down to when that was, we expect it will be within 1 month.

Ms. STEVENS. Within 1 month?

Senator COCHRAN. Six weeks.

Ms. STEVENS. That would be parts one and two. See, part three has only been published at last and really only because a Federal judge was really breathing down the Government's neck. And the comment period goes until July 14. So, I don't believe they are giving you the exact——

Senator COCHRAN. These are publication dates I think.

Ms. STEVENS. They have been published, yes. They were published. And we hope that parts one and two might be made final in the very near future because they only asked people to comment on the interrelationship between parts one and two and part three. And that should be a very simple matter. So, if we have parts one and two, that is a long step in the right direction.

And if I may just add one word. We are very much concerned that they might not publish parts one and two until they can also publish a final version of part three, which they can't do until they have had all the comments in. Because the opponents have been seeking to insist that all parts be published simultaneously, we believe that may be because they wish to come in with a lawsuit and hold everything up for more years. And we are very much concerned about that, Mr. Chairman, and so I very much hope that again this distinguished subcommittee will insist that they come out with the final parts one and two. And, of course, they have to have time to consider the comments on part three. That is understandable.

Senator COCHRAN. Who is on the other side of this? The research laboratories or who?

Ms. **Stevens**. Well, the National Association for Biomedical Research pools together a large number of laboratories and found this law very hard while it was being considered. As you may recall, it took 4 years before we could get the law actually completed. And it was toward the end of that time, there was a great deal of effort to comply with all reasonable requests by different scientific groups.

And the American Physiological Society, which uses more animals than any other scientific organization, finally said, all right, the way it is now, we will not oppose it any longer. We are not going to support it. We withdraw our opposition.

And the same thing happened with the Society of Professors of Medicine. They also said you have worked on it now so that we don't think this is in any way going to impede medical research, so you are free to go.

Nevertheless, I believe to a great extent the commercial laboratories did not ever sign off, and they would like to put as many obstacles as possible in the way of having this moderate and badly needed legislation in force.

Senator **Cochran**. As always, it is good to see you, and we appreciate your taking time to be here and helping us understand these issues more thoroughly.

Ms. **Stevens**. Well, I certainly appreciate your interest, Senator Cochran. And I might add that there is one governmental agency that is giving quite a lot of trouble too, and that is the National Institutes of Health.

Senator **Cochran**. OK. Thank you very much.

Our next witness on the schedule for today is Dr. James H. Woods, who is professor of pharmacology and psychology at the University of Michigan, representing the American Psychological Association. Welcome, Dr. Woods.

American Psychological Association

STATEMENT OF DR. JAMES H. WOODS, PROFESSOR, DEPARTMENTS OF PHARMACOLOGY AND PSYCHOLOGY, UNIVERSITY OF MICHIGAN

Dr. **Woods**. Mr. Chairman, a pleasure to be here.

On behalf of the American Psychological Association, I thank you for the opportunity to express our views on the critical need for enhanced funding for fiscal year 1990 for the Animal Welfare Program of APHIS.

APA is a scientific and professional organization representing 90,000 psychologists. Some within our membership, including myself, conduct animal research, research that has a significant impact on our understanding and treatment of human and animal physical and psychological conditions. APA's history reflects a deep and abiding concern for animal welfare. Since 1925, decades before public and congressional attention, the association has had a committee on animal research and ethics, the so-called CARE committee, to address scientific and ethical issues related to the use of animals in research. In 1985 CARE extensively revised its guidelines for ethical conduct in the care and use of animals. These guidelines were cited in a 1986 report by the Congressional Office of Technology Assessment as among the most distinguished of its kind.

As you know, the 1966 Animal Welfare Act and its amendments regulate the use of animals in research. APHIS enforces the act through licensure, registration, and annual inspections. Institutions are required to meet standards for handling, housing, feeding, sanitation, and veterinary care. Strong enforcement of the Animal Welfare Act, a congressionally mandated responsibility of APHIS, is an essential component to ensuring the laboratory animals are afforded appropriate care and treatment.

The well-being of animals used in research is of critical importance both as an ethical obligation and also because the provision of humane care is a vital component of good science. Only animals that receive adequate care can serve as good research models.

APA recommends that $10 million be appropriated for fiscal year 1990 for the APHIS Animal Welfare Inspection Program. Past levels of funding for this program, as well as the fiscal year 1990 budget request, have been inadequate to allow that agency to carry out its mandated responsibilities in a manner consistent with current knowledge of animal welfare, animal health, and animal behavior. This is particularly troublesome because the 1985 amendments to the Animal Welfare Act increased the scope of the program.

APA is particularly concerned about improving the quality of the inspection process. We believe that increased funding for the training of inspectors will result in marked improvements in the services provided by APHIS to the Nation's biomedical and behavioral research enterprise.

APA believes that the fiscal year 1990 budget request of $7.6 million for the Animal Welfare Program, while it does represent an increase over the 1989 appropriation, is insufficient to meet the agency's needs and responsibilities. We are not alone in our concern about the inadequacy of the animal welfare budget. In 1986 the Office of Technology Assessment concluded that APHIS funding was insufficient to adequately monitor laboratory animal care. Earlier in 1985 a GAO report found a serious lack of training for inspectors in recent years.

Inspections serve as the public's assurance that laboratory animals are being properly maintained. APHIS inspectors are responsible for evaluating conditions regulated by the Animal Welfare Act at approximately 6,900 registered and licensed facilities, 1,300 research facilities, 3,800 licensed dealers, 1,400 exhibitors and 400 intermediate animal handlers. Over 16,000 animal welfare inspections were conducted in fiscal year 1988.

Because of the overwhelming magnitude of the agency's enforcement responsibilities, enforcement of the Animal Welfare Act has been assigned to a new entity, the APHIS Regulatory Enforcement and Animal Care, the so-called REAC. REAC is a separate entity intended to provide well-trained animal welfare specialists to conduct the high quality animal inspections necessary to comply with the 1985 Animal Welfare Act amendments. For these efforts in support of improving the Animal Welfare Program, we applaud APHIS Administrator Dr. James Glosser.

Yet adequate funding is essential for meeting this goal. Despite the importance of its mission, the $7.6 million request for animal welfare inspection represents less than 2 percent of the entire

APHIS budget. At the present time, there are only 48 REAC inspectors in the field attempting to cover the entire United States.

Further, these inspectors have not yet received the training they need. While the expertise to train inspectors exists within the scientific and veterinary communities, APHIS has not yet been able to systematically take full advantage of these resources. With due respect to the capabilities of the APHIS training staff, as well as to officials from other agencies that may assist in training, insufficient breadth and depth of training within the inspection service continues to undermine both the program's credibility with the scientific community, as well as the public's confidence in the establishment of national standards of animal welfare consonant with our Nation's critical research needs.

Effective enforcement of the Animal Welfare Act is a difficult task that demands significant expertise. To implement, for example, congressionally mandated provisions that research facilities attend to the different needs of various species of animals used in research, one needs a sophisticated appreciation of behavioral and psychological variables, as well as knowledge of laboratory animal medicine. Yet, only one member of the REAC inspection staff has formal training in laboratory animal medicine and, as best we can determine, none have specific training in the behavioral sciences.

It is critical that funds are made available to train inspectors about species-typical behavior and biological needs. This will permit inspectors, in cooperation with researchers and other specialists, to better assess if the animal environments are adequate and, most importantly, appropriate for particular species in relation to the specific scientific purpose for which they are being studied. To put this need in perspective, during the course of inspecting regulated facilities, inspectors must evaluate conditions for nearly two dozen different types of the most widely studied animals.

APA, as well as other scientific and animal welfare organizations, strongly supports measures that would facilitate consistently high quality inspections. A broad range of scientific and animal welfare organizations agree that significantly more funding is required if APHIS is to fulfill its responsibilities under the Animal Welfare Act.

In recent years, this subcommittee has had the foresight to preserve the APHIS Animal Welfare Program. Congress appropriately recognized the need for a Federal program to enforce national standards for laboratory animal care and use. We ask you to provide the agency with funds sufficient to facilitate APHIS' ability to strengthen its efforts through REAC and to enforce valid and consistent standards.

We believe that the $10 million that we are asking you to appropriate is important to ensure high quality inspections and that the level of funding will permit vitally needed enhanced training for inspectors.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you very much, Dr. Woods.

Let me ask you this. Do you know—I don't know—whether States purport to engage in any inspection activities for the purpose of protecting animal welfare?

Dr. **Woods**. Oh, surely. May I give you the Michigan experience?

Senator **Cochran**. Well, not the whole dose. I am just curious.

The reason I ask is rather than everybody getting the idea that there are only 48 inspectors nationwide to try to ensure that laboratories are using procedures and practices that are sensitive to the needs of the animals, there are more inspections occurring. There are more people involved in trying to monitor this at the State and local level; are there not?

Dr. **Woods**. Sure. I would say that at least at the University of Michigan, our strongest control comes from our own policing of ourselves through our university committees and through inspections that our unit for laboratory animal medicine make independently of any other organizations. Then we have national organizations like ALAC that also look after us.

But I don't think we have a strong State program for at least research facilities. This is really all I know anything about. And I'm sure the State pays for more attention to animal facilities that have to do with producing food, but I don't know very much about that.

Senator **Cochran**. Well, I was just curious. It occurred to me while I was listening to your testimony and thinking back over what Ms. Stevens said that the Federal Government really is not situated to provide the total number of on-the-ground inspectors that may be needed. But then again, we do have State governments that have interests in this. We have local organizations and, like you say, private groups on university campuses and the like who are involved in assuring this. I know just in the community where we live here in the metropolitan Washington area that my wife is a supporter of the Animal Rescue League. And, there are other kinds of activities in every community everywhere, and all of that is good.

So, poor APHIS doesn't have the whole burden. I know we may need some additional funds, and I'm not saying we don't. But it is good there are others who are involved in this too. It is not just APHIS' responsibility.

Dr. **Woods**. Well, I think, Mr. Chairman, in terms of the kinds of regulations that we are responding to most strongly within universities at research facilities, it seems to me that we are looking to Federal regulations to provide our standards and the inspections that enforce those I think we could argue very strongly should have good national standards and should have all that we can put behind them to make a truly fine establishment for what are very much needed, good regulations.

Senator **Cochran**. Right.

I appreciate your being here, and thank you for doing a good job of representing the American Psychological Association.

Dr. **Woods**. Thank you, sir.

Senator **Cochran**. Our next witness is Dr. Rudy Wodzinski who is representing the American Society for Microbiology. He is chairman of the Committee on Agriculture, Food and Industrial Biology of that society. Welcome. You may proceed.

AMERICAN SOCIETY FOR MICROBIOLOGY

STATEMENT OF DR. RUDY J. WODZINSKI, CHAIRMAN, COMMITTEE ON AGRICULTURE, FOOD AND INDUSTRIAL BIOLOGY

Dr. WODZINSKI. Good afternoon, Senator Cochran.

As you stated, I am here representing the American Society for Microbiology. The way I really earn my living, though, is I'm a professor at biological sciences at the University of Central Florida.

My comments today are on behalf of the ASM, and they have to do mainly with the Competitive Grants Program. We have a comment about the ARS portion of the budget and also about the APHIS part of the budget.

And I'm sure you're aware that ASM members play a large role in the research that takes place in agriculture. And they are extremely interested in agriculture, and they are recipients of some of the grants from the Competitive Research Grants Program.

I would like to confine a large number of my comments to the Competitive Research Grants Program. And it exists to support fundamental research that will provide the necessary knowledge for solving problems of agricultural production facing this country in the present and in the future.

In the 11 years since the program started, $320.6 million has been appropriated for fundamental research with plants, animals, microorganism of agricultural importance.

I think the last time I appeared before you, Senator Cochran, you asked me what did you get for your money. And I wasn't as well prepared as I am today I hope. I would like to give you a few examples of what has happened. You know, it is always extremely difficult to take from the basic to the applied and what the net worth on that is. But I think that there are some examples that we can point to.

For example, the early studies that Dr. Lindow produced on the ice nucleation experiments on the mutant pseudomonas which prevents freezing of young plants at subfreezing temperature was supported by CRGO. Some of the techniques that were developed to move genes from one type of plant to another using the crown gall factor were supported by CRGO. Without this basic information, it would not have been possible to move genes from one plant to the other as is done at this time. And this methodology was essential to permit the development of plants with new characteristics, and some of these are being field tested right now, for example, the tomatoes that carry the nontoxic for humans pesticide produced by bacteria and the tomatoes that are resistant to herbicides, which are biodegradable.

Additionally, basic research was required for the antisense recombinant DNA developed by a commercial company to retard aging of tomatoes. And the first research on that was again funded by CRGO.

And it is expected that the return to the small farmers, as well as to the developers of these products, will far exceed the cost of research to produce these advances. The CRGO program has been a wise investment. However, the program as it exists today has been underfunded to accomplish its mission.

I would like to point out one thing. The program is 11 years old and it is now we are first starting to see some of the practicality that comes out of it. And that is the general time it takes for this basic type research. And too often it is easy to say, well, we don't need this right now. We can put it off another year. We sense a certain degree of urgency that it is timely to enhance these programs in the competitive research grants area.

Right now there is a public clamor for increased food safety, for increased nutritional quality, and for land stewardship that insures minimal environmental damage by agricultural practice. And these public demands must be satisfied without causing an unreasonable increase in the price of food.

Additionally, the United States is facing stiff competition from abroad. We are being challenged in a shrinking export market for agricultural commodities by other technology based countries for markets that were essentially our sole domain. If in the future, we do not produce food that is not only cheaper but of better nutritional quality in a manner consistent with our goals of preserving our environment, we will lose our agricultural export market and become a net importer of food. These events will place severe economic pressure on our farming community. The marginal which unfortunately at this time in our history is too often equated with the small family farm will become extinct at a faster rate, if that is possible, than has occurred during the past 30 years. For these reasons, we sense that a high degree of urgency is required to address these problems and that action must be taken now to help solve these problems.

Now, fortunately, there have been recent advances in the biological sciences, especially in biotechnology, which offer us at least a partial solution to some of these problems. This type of research is not free and it is not accomplished overnight. We must conduct the necessary fundamental research in plants, animals, and microorganisms to enable us to achieve our goals.

The research tasks in agriculture are much more formidable in many ways than for human health. Yet, the funding for basic research in agriculture is a fraction of what is spent on human health. In human health, for a large part, we are concerned with only one organism, man. In agriculture, we are concerned with the health and nutrition of many different types of animals and plants and their interrelationship with the environment.

The funding needs for fundamental research on plants, animals, and microorganisms important in agriculture has to be increased to a level that is commensurate with the challenge. The American Society for Microbiology agrees with a large number of scientists and other societies that a minimum level of funding for an initiative and competitive grants program should be at $500 million per year.

Senator COCHRAN. That one really got my attention.

Dr. WODZINSKI. I know it did.

Senator COCHRAN. That one is underlined here.

Dr. WODZINSKI. I think you are aware that there is an initiative that is taking place with the various scientific societies to try to determine what is the minimum level. Now, it comes out we come out with a figure, and some people say, well, that is ludicrous. You know, last year they cut you down to $39 million. It was $39.2 million last year. It is ludicrous to ask for it, but we have kind of been put in a position where the budget has become such a minor part of it, it has become so small that we have to ask for so much.

And I furnished all kinds of statistics for you, which I wish you would make part of the record, but I don't think I want to bore you with going through all of these.

But when we make comparisons between USDA, between NSF, between NIH and we look at it and such things that the number of grants that are applied for, the number that are funded, the dollars that are applied for, the amount of dollars that are funded, agriculture comes way down at the bottom of the list. It is like 10 percent of the grants are funded—or 20 percent of the grants, 10 percent of the money applied for. And yet, as I have pointed out, the type of research, having to work with plants, animals, and microorganisms and environmental, is oftentimes much more difficult than it is, for example, with human health.

Additionally, if we look through at the average grant, at NSF versus USDA, NSF it's $67,800 per year for 3 years, at USDA it's $50,000 for 2 years. And that is difficult. That is difficult to train students. We keep falling behind on the number of people who are basically trained so that they can work in agriculture.

And we are very concerned that competition from abroad, especially with the biotechnology part of this, will make us a net importer of food in the long run. We are going to end up sending off a few raw materials and get back finished products the way things are going.

And I would like to reemphasize that the Competitive Grants Program is 11 years old before we start getting the practical applications from it. That is the normal lag time in science from when something basically is discovered and when something practically comes out. And we do feel this sense of urgency to go with this.

Senator COCHRAN. I wonder if we have any kind of information comparing the investment the Federal Government makes in this, the investment made by private industry and State governments or other sources combined. Do you have any figures on that?

Dr. WODZINSKI. I don't have those figures with me, but I think that we could get them.

Senator COCHRAN. What worries me is that we all tend to look at the Federal budget, and we see that it is not as much as compared with, and then you pick a country, Japan, somebody else. But what you don't have there is the combined wealth and effort that is being put into the projects here in our country from other sources. It is considerable; isn't it?

Dr. WODZINSKI. Right, for overall. But I think when you look at the basic part of the budget for the basic research part, not the developmental part, we——

Senator COCHRAN. And I am strongly in favor of this. I mean, our committee has been much more generous, for instance, than our opposite number in some of these areas. We have had a very difficult time in conference maintaining the level of funding at the amount recommended by this subcommittee. So I hope this message is being carried to both sides of the Capital. We have been very generous comparatively speaking, and I'm personally very committed to many of these efforts. And I'm not being critical of you.

I just wonder whether or not we as a nation with all sources being counted are falling as far behind as the Federal budget might indicate that we are.

Dr. WODZINSKI. I think one problem is sometimes people look and they say, well, NSF is taking care of some of the plants things, but normally what you find that is they are not working on the plants that are of economic importance. They may be using some things as model systems. Some of this work does apply, very granted. But there is some basic research that is required on the agricultural plants, the agricultural animals, on those types of systems, and that is just not being done here. And it is really necessary.

Some of the advances that have come out even in the last few weeks are really interesting as to what is going to happen. It is going to change agriculture quite a bit, and hopefully we will capitalize on all of these.

Senator COCHRAN. I hope we can too.

Dr. WODZINSKI. I do have two other comments.

Senator COCHRAN. I hate to leave you. I'm going to turn this over to the other chairman. I am supposed to have been doing something else for 15 minutes, but I wanted to hear your testimony. I am sorry I have to rush off before you are through.

Dr. WODZINSKI. Thank you.

I have two other comments. One has to do with the ARS budget. We support the money for retrofitting of the ARS laboratories. We think that that is very minimal. We hope that the money for the retrofitting of the ARS laboratories does not come out of science or bench scientist salary, however.

Additionally, we support the statements that were made earlier for $10 million for the inspection for APHIS for laboratory animals.

Thank you, Mr. Chairman.

Senator BURDICK [presiding]. Thank you.

Mr. James Mulhern, director, legislative affairs, National Milk Producers Federation. Welcome to the committee.

NATIONAL MILK PRODUCERS FEDERATION

STATEMENT OF JAMES MULHERN, DIRECTOR OF LEGISLATION

Mr. MULHERN. Thank you very much, Mr. Chairman. I am James Mulhern, legislative director for the National Milk Producers Federation, and I appreciate this opportunity to appear before you today to provide the views of the Nation's dairy farmers and their cooperatives on the fiscal year 1990 appropriations bill for the Department of Agriculture and Related Agencies.

I have submitted a copy of my statement for the file. I would like to briefly highlight a few key concerns of our members with respect to programs before the subcommittee.

At the outset, let me say that we are keenly aware of the difficult task confronting the subcommittee in formulating a spending package in light of the severe constraints imposed by high Federal deficits. Clearly difficult choices must be made, and we applaud the judgment and wisdom of this subcommittee in making those choices.

I will cover just a few areas that are in my written statement just to briefly summarize.

With regard to child nutrition programs, we have long been a strong supporter of these efforts to ensure that the Nation's children receive necessary nutrition assistance through programs such as school lunch, school breakfast and the child care food program. We support full funding of these programs in fiscal year 1990.

But we are gravely concerned by the administration's proposal to virtually eliminate the Special Milk Program. The proposed $19 million cut would decimate this vitally important program which provides essential nutrition to children in schools and institutions which do not participate in other Federal food assistance programs. We strongly urge you to fund the special milk program at the full $22.7 million level.

Turning to animal health, the federation shares the concerns of other animal agriculture groups regarding funding of programs aimed at disease prevention and health research. The $10 million cut suffered last year in the Brucellosis Eradication Program damaged our efforts to eliminate this costly disease, and we urge you to restore funding to the previous level. We are working with several other groups, including USDA, on alternative options to achieve our goal of eliminating the brucellosis disease and urge your support of that effort to develop some alternative options.

We oppose the proposed reduction in Cooperative State Research Service funds, and are especially concerned by the proposed elimination of section 1433 animal health and disease formula grants. These funds are critically important to the infrastructure of the agriculture experiment stations, and we urge continued funding at present levels.

Turning to the animal health and food safety activities of the Food and Drug Administration, our members are strong supporters of programs and efforts to continuously assure the American public of the quality and safety of milk and dairy products. One concern I would like to highlight is the need for additional funds of the agency's Center for Veterinary Medicine. The center faces a number of major tasks at a time of growing public awareness of food safety. Our members want to see a greater emphasis on animal drug use labeling and testing with new animal drug applications to provide improved residue screening methods. The center already faces increased workload pressures as a result of the generic animal drug legislation passed last year and the ongoing efforts to improve international harmonization of animal drug regulatory testing and activities.

Finally, Mr. Chairman, I would like to voice our support for full funding at the fiscal year 1989 level for USDA's Agricultural Cooperative Service and our opposition to the administration's proposal to reduce the agency's activities. The Agricultural Cooperative Service provides important services to foster the development of cooperatives which are really the cornerstone of our development efforts in rural America.

Thank you for the opportunity to appear here today, and I hope that summary covers our major concerns.

Senator **Burdick**. Thank you.

The committee will be in recess for 15 minutes due to a vote on the Senate floor.

[A brief recess was taken.]

Senator **Burdick**. The next witness will be Mr. Mike Cranney, president of the National Potato Council. Welcome to the committee.

NATIONAL POTATO COUNCIL

STATEMENTS OF:

MICHAEL CRANNEY, PRESIDENT

RON WALKER, EXECUTIVE DIRECTOR

Mr. **Cranney**. Mr. Chairman, we appreciate the opportunity to be here today, and I have Mr. Ron Walker with me, our executive director of the National Potato Council. I would like to introduce him.

At this time, Mr. Chairman, and members of the subcommittee, my name is Mike Cranney, and I am a potato farmer from Idaho and current president of the National Potato Council.

Last year past president Larry Young from Michigan testified before this subcommittee regarding funding for the national potato research proposal. On behalf of the council, we thank you for your assistance in obtaining funding for part of the proposal in the fiscal years of 1988 and 1989, and we look forward to working with you to expand the funding in fiscal year 1990.

The potato crop has been traditionally controlled by supply and demand in a free market. Government support programs such as price guarantees and acreage set-asides have not been necessary. However, like any other major commodity, potato growers recognize in order to remain a viable and competitive industry, we must constantly strive to improve our product. Through carefully planned and executed research, we believe we can continue to offer an excellent product and remain a viable U.S. agricultural industry.

As you will recall, the national potato research proposal was a culmination of an intensive effort begun in 1984 between the NPC and the U.S. Department of Agriculture's Agricultural Research Service to identify national research issues of concern to the potato industry. During the fiscal year 1988 budget process, based on these identifiable research needs, the national potato research proposal received additional funding in the fiscal year of 1988 for the top three of nine priority research projects as follows: ring rot disease, $500,000; early dying disease, $350,000; and marketing, $350,000.

Last year during the fiscal year 1989 appropriations cycle, the NPC presented to you and your subcommittee a request to build on the funding base that had been established in the fiscal year 1988. Due in large part to your leadership, Mr. Chairman, and the support and interest of all the members of the subcommittee, Congress approved increased research funding for marketing at a level of $250,000 and provided initial research funding for aphids and potato beetles at the level of $200,000 each.

The industry is well aware of your assistance in obtaining this funding and we deeply appreciate the efforts of the subcommittee, particularly in light of the budgetary difficulties that you have to face.

In fiscal year 1990 appropriations cycle, the National Potato Council urges support for obtaining both the balance of funding for marketing, $1,400,000; aphids, $600,000; and potato beetle research, $1,800,000; as well as new funding for the remaining proposal projects, weeds, $1,100,000; varietal development, $800,000; soils, $610,000; and agricultural engineering, $237,000.

It is important to note that representatives of the NPC have held several extensive meetings with ARS officials, the most recent in late February 1989, to discuss the distribution of fiscal year 1989 funding. The NPC is particularly pleased with the tremendous efforts put forth by ARS to ensure that the research is conducted in the most thorough and expeditious manner. The NPC looks forward to continuing its close partnership with ARS to maximize the use of these important funds.

The NPC has become deeply involved in environmental issues, including concerns over ground water and chemical safety. We feel that our growers make every attempt to apply such chemicals safely and within Environmental Protection Agency requirements. However, we anticipate further restrictions on the use of chemicals and even loss of some existing products. For example, the Colorado potato beetle has become an increasingly troublesome pest and is spreading rapidly. Research is therefore even more critical given the rapid spread of this pest and the concerns over chemical use. It may even be possible to overcome our dependence on chemicals through approaches to genetic engineering.

The NPC will continue to work closely with USDA to oversee this research and will report periodically to interested Representatives, Senators, and staff who have a strong interest in supporting the potato industry on the status of the research.

We sincerely thank your subcommittee for its generous support of this vitally important research. I would be happy to answer any questions that you might have.

Senator BURDICK. How has the reregistration of chemicals required by the Federal Fungicide Act affected the potato industry?

Mr. CRANNEY. Mr. Chairman, that is one of our major concerns. We have a lot of minor use chemicals that we use in the potato industry that, because of the very expensive process of this reregistration, we feel we are going to lose a lot of our production tools there because it really doesn't justify to the chemical company the expense of spending that money for such a minor use chemical.

Senator BURDICK. Has reregistration changed your priorities for research?

Mr. CRANNEY. Well, that is why we made the statement we did about these issues of—well, like the albacord thing that is before us right now. We are going to have to find alternatives to maybe using those kinds of chemicals in the future, and we are trying to redirect some of our research toward genetic engineering and ways to breed resistance into our plants so that we can do those things that way rather than through the use of chemicals.

Senator **Burdick**. Well, we invite you to come to the Red River Valley to take a look at some good potatoes sometime when you have spare time on your hands.

Mr. **Cranney**. OK. We have been there before.

We appreciate your letting us come today and speak before you.

Senator **Burdick**. Thank you.

Mr. **Cranney**. Anytime you get a chance to come out to Idaho, we'll be glad to invite you out there also. Thank you.

Senator **Burdick**. Our next witness will be Mr. Jim Hauge, executive committee, National Pork Producers Council from Leith, ND. Welcome to the committee.

National Pork Producers Council

STATEMENTS OF:

JIM HAUGE, EXECUTIVE COMMITTEE

RICHARD E. PASCO, DIRECTOR, LEGISLATIVE AFFAIRS

Mr. **Hauge**. Thank you, Mr. Chairman.

Senator **Burdick**. You are no stranger to this committee.

Mr. **Hauge**. Thank you. Mr. Chairman, I am Jim Hauge from Leith, ND, and I wanted to thank you for this opportunity to testify before you today.

As a member of the executive committee of the National Pork Producers Council, I commend you and your committee for the support of our pork industry, your present and past support.

I ask to submit my written testimony as part of the file, and will try and highlight some of the key programs.

We strongly endorse the mission of the Animal and Plant Health Inspection Service to enhance our Nation's economy and public health through the development and implementation of animal health and care programs. APHIS has made substantial contributions to our industry.

U.S. pork producers officially launched a 10-year pseudorabies eradication program this year as a result of the efforts of this committee. This initiative was met with tremendous support from States and even provided some matching funds to overcome PRV. Those States are now requesting Federal funding above what is available in the administration's budget for 1990. To continue the momentum, pork producers are requesting your support in appropriating $4.5 million for fiscal year 1990 for this important program.

We realize the agriculture budget is being squeezed, but it is critical to our program not to stray from the proposed 10-year pseudorabies eradication plan. This is especially important when States have generated so much enthusiasm for the PRV efforts. State and Federal swine organizations are holding meetings to coordinate the various efforts. In fact, 41 States now have taken their initial step in controlling PRV by forming an official advisory committee.

In addition, funding at the $4.5 million level will allow for more regional epidemiologists to be assigned to the program next year. This level of funding will also pay for more testing of sows and boars at markets and farms so we can locate and eliminate the infection sooner.

We believe that the administration's funding request will simply not meet the needs to reduce the incidence of the disease in the States where the incidence is the highest. Even though pseudorabies is our No. 1 priority at this time, we know you are aware that we are also working with APHIS in the eradication of swine brucellosis. With only .04 percent of all U.S. swine now having this disease, we would like to see a final sweep made to totally eradicate this disease in the United States. Thirty-two States are already validated free of swine brucellosis. However, due to the prevalence of this disease in 18 States, the 32 free States must continue the cost of the annual blood testing surveillance program. Elimination of swine brucellosis would put an end to industry losses from this disease and save taxpayers in the long run.

Pork producers also support animal research activities of the Agricultural Research Service. There is a great need for agricultural research, and ARS has shown their ability to properly apply available funds. Therefore, we believe that a substantially larger funding increase for the agency would be justified. Both consumers and producers alike benefit from efforts in animal research.

We are requesting an additional appropriation for a new finishing barn at the Meat Animal Research Center at Clay Center, NE. This funding would allow researchers to study the full range of problems in the swine production cycle. It also follows the startup costs provided this year.

We encourage the efforts of the Extension Service in assisting farmers with water quality initiatives. Education, not regulation, is the key to protecting ground water resources. Extension staff can further educate farmers on human health effects of contaminants, the sources of contamination, the best management practices to protect ground water and the testing of water quality.

We also believe funds need to be identified as a line item in the Extension Service budget for residue avoidance programs in livestock similar to that of the pesticide impact assessment and the integrated pest management that applies to crops. We urge that at least $150,000 be provided for residue avoidance programs in livestock.

The National Pork Producers Council appreciate your support of the many programs discussed here today. Your support, without a doubt, is the key to continued viability of our industry. A commitment from the Federal Government will help us maintain our productivity and competitiveness in the domestic and international marketplace, and it will assist us in our new commitment to quality.

Mr. Chairman, that concludes my testimony. I thank you for this opportunity to come here today. I will try and answer any questions that you may have.

Senator **Burdick**. Thank you very much.

Mr. Hauge, I noticed that you have endorsed the same brucellosis eradication plan as the milk producers, the cattlemen and others. Would your request of $4.3 million for swine eradication be earmarked within the overall funding for brucellosis, or are you requesting additional funds to be provided separate from the general program?

Mr. HAUGE. What we are requesting is a 3-year program with $4.3 million this year to continue the blood testing work that is being done to try and eradicate this in 3 years with the total cost of $10 million.

I don't have that information to answer that question, Mr. Chairman. But there is somebody here that may be able to. I would like to introduce Mr. Rick Pasco from NPPC.

Mr. PASCO. Mr. Chairman, that is a very good question because we have been working with the milk producers and cattlemen.

And what has happened in the past with the brucellosis program is that I believe last year, fiscal year 1989, only $800,000 of $55.8 million was allocated to swine brucellosis. Our funding would be consistent with what the cattlemen and milk producers are seeking. But we would like to see more funds go to the swine side of that. So, that is right. Your comment is correct that we do support them in their efforts. But at the same time, we would like to see more earmarked for swine.

Senator BURDICK. Well, that doesn't quite answer my question that I had in mind.

Back to this request for $4.3 million. Would that be shared with others or would that be entirely devoted to swine?

Mr. HAUGE. That would be entirely for swine—the $4.3 million.

Senator BURDICK. I see.

Thank you very much.

Mr. HAUGE. Thank you.

Senator BURDICK. Our next witness will be Dr. Edward Bloustein, president, Rutgers, the State University of New Jersey. Welcome to the committee.

RUTGERS, THE STATE UNIVERSITY OF NEW JERSEY

STATEMENT OF DR. EDWARD J. BLOUSTEIN, PRESIDENT

Dr. BLOUSTEIN. Thank you very much, Mr. Chairman. I am Edward Bloustein, the president of Rutgers, the State University of New Jersey. And I am here to testify on behalf of the United States Department of Agriculture program which provides matching funds for construction of agriculturally related scientific research facilities.

Senator BURDICK. Is football related agriculturally?

Dr. BLOUSTEIN. I wish it were.

Senator, I am so pleased to come here because I think I speak for my colleagues throughout the country, presidents of universities both private and public, in expressing the extraordinary pride we have over the strength of the agricultural economy of this Nation that has been nourished by the great land grant tradition that you and the other Members of Congress have so forcefully supported over long years.

It is a program which has been more successful, I think, than any other program I know in producing a very, very sound economic result. I think, indeed, that result is now the pride of the Nation. The agricultural community produces a higher level of exports than any other part of our economy, and in large measure it has made this Nation the pride and the sustenance of the rest of the world.

There are three things that are the secrets of that great success we have had in agriculture. The first is that we have made it as a result of a partnership between the producers, the agricultural producers, and the agricultural scientists. And in agriculture we have a technology transfer mechanism through the agricultural experiment stations of this Nation which has been vitally successful. It has been so successful that I and other people am now recommending it to the National Science Foundation to be copied in other areas of our economy and in other aspects of the science we do within universities.

The other great and very successful aspect of the program has been the partnership between the Federal Government and the States. The Federal Government can't assume the entire burden of the support of any aspect of the economy. But with the help of the States and by a cooperative approach between the States and the Nation, the job has been well done in the case of agriculture.

Now, Rutgers is currently seeking matching funds for the construction of a plant bioscience complex under the program I am here to testify in support of. This complex will meet a national need for basic research in the plant sciences to underpin the challenges facing agriculture in the future, namely, increased profitability and reduced use of environmentally sensitive compounds such as fertilizers and chemical pesticides.

Our complex will house the Center for Agricultural Molecular Biology, a very advanced scientific complex, consisting of 16 world-class scientists under the direction of Dr. Peter Day, a world renowned agricultural biotechnologist and geneticist who we just stole away from our good friends in Cambridge, England. The complex will also house the academic departments of plant pathology, horticulture and crop science, entomology and plant bioscience.

I am pleased to say this afternoon, Mr. Chairman, that this facility is of such great importance to the State of New Jersey that the people of that State voted overwhelmingly in a referendum last year to provide the State matching funds for the facility. It was the largest single turnout of people in support of any bond issue in the history of the State of New Jersey, showing the huge importance that the people of the State attached to this and the other facilities funded. But the people voted $28 million for this facility as part of the matching funds for the Federal match.

And I'm sure the facilities are of special importance in a State like New Jersey. You know, the most urbanized State in the Nation has a very, very intensive agriculture that must be, more than ever, careful to the needs of the environmental sensitivities of the use of pesticides and nutriments. And in molecular biology, we look forward to discovering a key to reduce those pesticides and nutriments that otherwise might befoul the environment. And that is why the people of the State of New Jersey responded so extraordinarily in voting that bond issue.

Now, in 1987 Congress mandated that a study be conducted on the national value of such a facility at Rutgers, and the study committee endorsed the project and noted—and I quote—"the cost benefit of this proposal is one of the most favorable based upon their many years in university and private sector agricultural research."

In 1988 you and the other Members of the Congress provided a planning grant for the facility, and those plans are now being developed.

In 1988 I say as well the citizens of New Jersey stepped to the bar and put up their matching funds. And I now urge you, Mr. Chairman, and members of this subcommittee and the Congress to follow the recommendations of your study committee and, based on the planning grant, provide the additional money to complete the facility.

I thank you very much for this opportunity to appear before you today. Obviously, I am pleased to answer any questions you may have.

Senator **BURDICK**. Thank you very much.

How long is construction of the complex expected to take?

Dr. **BLOUSTEIN**. It is expected to take 3 years.

Senator **BURDICK**. Will Rutgers take full responsibility for equipment and operating expenses, including personnel once the facility is completed?

Dr. **BLOUSTEIN**. It is a project not of the university, but of the State's Science and Technology Commission which has assumed with the university the obligation to provide the equipment necessary for the facility to operate successfully.

Senator **BURDICK**. In other words, you don't look to the Federal Government for this.

Dr. **BLOUSTEIN**. No, indeed.

Senator **BURDICK**. Well, I wish we had time for a little discussion of football.

Dr. **BLOUSTEIN**. I wish we had that time as well, Senator. I am delighted to have been with you even this short time, and I thank you greatly for your help.

Senator **BURDICK**. I played for the University of Minnesota when you fellows were getting your suits on.

Dr. **BLOUSTEIN**. I don't remember the days of your playing. I remember some great Minnesota teams.

Senator **BURDICK**. Thank you very much.

Dr. **BLOUSTEIN**. Thank you, sir.

Senator **BUMPERS**. Just a minute, if I may, Mr. Chairman.

Senator **BURDICK**. Yes.

Senator **BUMPERS**. Is it Bloustein?

Dr. **BLOUSTEIN**. Bloustein, yes, sir.

Senator **BUMPERS**. First of all, I want to say you head up a great university.

Dr. **BLOUSTEIN**. Thank you, sir.

Senator **BUMPERS**. And I don't want to be the skunk at the lawn party, but I want to say this. The amount of money you are requesting here, as W.C. Fields used to say, ain't bean bag. And considering the budget constraints we are under here, plus the fact that there are numerous universities into the kind of molecular research you talk about and particularly in the field of genetically improved resistant plants to drought and diseases, and you are asking, for example, for far more money than the University of Arkansas, which is one of the really fine research-oriented agricultural universities doing tremendous research on genetically improved plants, as well as a whole host of other research. And I just want to say that I think Arkansas would have voted two to one too to pay $28 million in exchange for a $37 million matching Federal grant.

I applaud you. I don't want to minimize it and I don't want to denigrate the people of New Jersey. I appreciate that, but I do want to say that I would have to be convinced. And I am looking forward to reading this report that you alluded to in your testimony because I would have to be persuaded that it would be in our interest to spend $38 million plus to duplicate a lot of research that is going on at Kansas State and Iowa State and the University of Arkansas and some other fine agricultural research-oriented universities in the country.

Dr. **BLOUSTEIN**. Well, Senator, I am sure you will give this your full consideration.

Senator **BUMPERS**. I certainly will.

Dr. **BLOUSTEIN**. Let me just add two or three issues.

First, the support of the State of New Jersey is $47 million.

Senator **BUMPERS**. I understand that. I read the mix of the funding.

Dr. **BLOUSTEIN**. The $28 million was just the bond issue portion of the funding.

But second, I think there are special issues that are presented in the agriculture of the Northeastern part of the United States that may deserve your special consideration as well. We do a very different kind of agriculture because of the highly urbanized area in which we exist. And the relationship between those farm producers that have to produce under those conditions and the scientists that has been nurtured over the years in our extension programs throughout the country is vital. So, I think we will be serving a very special need of the urban areas of these United States which have to produce their own food. And New Jersey is a great food producer.

Senator **BUMPERS**. It is. Senator Bradley has reminded me of that 100 times since he has been here. There is a lot more agriculture in New Jersey and in New York than people would ever dream.

Dr. **BLOUSTEIN**. And it presents some very serious and significant problems unique to the region that are not resolved in some of the Midwestern States which do great work, but there are some unique problems in the Northeast.

Senator **BUMPERS**. Well, I look forward to getting the report.

Does this subcommittee, Rocky, have a copy of this report that he has alluded to here on the study for this?

Dr. **BLOUSTEIN**. I'm sure you do, Senator. If you don't, we have copies of the report, obviously.

Senator **BUMPERS**. Thank you, President Bloustein. We are pleased to have you. You made a very fine statement. I'm just raising the budgetary problem.

Dr. **BLOUSTEIN**. Oh, I understand it well because I have to face the same kinds of budget problems.

Senator **BUMPERS**. You have problems, too, don't you.

Dr. **BLOUSTEIN**. Yes.

Senator **BUMPERS** [presiding]. Mr. James B. Roberts, president of the National Association of State Foresters. Mr. Roberts, welcome to the subcommittee. We are pleased to have you. Please proceed.

NATIONAL ASSOCIATION OF STATE FORESTERS

STATEMENT OF JAMES B. ROBERTS, PRESIDENT

Mr. ROBERTS. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, my name is James Roberts for the record, and I am the State Forester of Maryland and the president of the National Association of State Foresters. And we welcome the opportunity today to appear before you to discuss the importance of forestry programs that foster good management of a valuable national resource.

A primary goal of our association is to ensure that stewardship practices are carried out on private, nonindustrial forest lands while at the same time increasing their productivity. Our forests are renewable natural resources, and when managed wisely, can provide a wide range of benefits for both present and future generations.

There are several programs in place working toward this goal. However, in the 1989 budget, the administration has proposed the elimination of funding for many of them: the Agricultural Conservation Program, the Forest Incentives Program, the Rural Community Fire Protection Program, the Renewable Resources Extension Act, to name a few.

Both the ACP and FIP programs provide much needed financial assistance to encourage landowners to reforest and to increase forest productivity through timber stand improvement. At a minimum, our association recommends funding at the 1989 appropriation level for these valuable cost-share programs which is a good investment for our Nation's future.

The USDA Extension Service through the Renewable Resources Extension Act helps to educate landowners to the importance of protecting and managing their forest resources. Knowledge is a very valuable incentive in placing forest land and many other lands under sound management programs. We recommend a minimum funding level of $6 million for the RREA, again a very small investment in helping to educate more than 7 million of our Nation's forest landowners.

There is also an increasing need for improving fire protection for both structural and wild land fires in our rural areas. We recommend that the Rural Community Fire Protection Program be funded at the authorized level of $7 million. This is the very minimum needed to relieve some of the financial burdens of the many thousands of volunteer firefighters in the rural areas of our Nation.

In addition to the cost-share programs and the educational programs I just mentioned, funding has also been eliminated for a very valuable and essential research program, the McIntire-Stennis Act. With the increasing impacts upon our forests, impacts from fire, insects, disease, and the many pollutants that we still don't have enough knowledge about, plus the increased need to manage these forest lands, we can't afford to reduce our efforts in forest research. We need to increase our efforts.

State forestry agencies depend almost solely on the U.S. Forest Service and the universities for knowledge in all these areas. Therefore, we recommend a funding level of $25 million for the

McIntire-Stennis Program, again a very small investment to gain knowledge about an essential national resource.

And finally, Mr. Chairman, the Conservation Reserve Program has been responsible for the planting of almost 2 million acres of trees in this country since 1986. And I might add there this is just a drop in the bucket when we consider the total impacts that we are facing from such issues as global warming.

The State foresters have been proud to be a part of this effort. This program has demonstrated its cost effectiveness in both reducing soil erosion and the reduction of surplus agricultural commodities. Our association strongly supports funding of the Conservation Reserve Program at a level that will achieve the 12.5-percent tree planting goal as mandated by Congress.

We would like to thank the committee and the members for your previous support for these valuable resource management programs. And again, we ask your support for continued funding at the levels we have recommended for the 1990 budget.

And I would like to end with a quote I heard today from one of our friends from Norway, a Norwegian forester. He said the nations have spent billions assuring their military safety which is very justified. Maybe it is time that we consider spending equal amounts of money, if available, understanding the budget crisis, to assure our ecological safety.

Thank you, Mr. Chairman.

Senator BUMPERS. Thank you, Mr. Roberts, and I want you to know you have a friend on this committee.

Mr. ROBERTS. Thank you.

Senator BUMPERS. I couldn't agree with you more.

I do want to just ask you one question. I note that you are recommending $6 million for the Renewable Resource Extension Act, and the National Association of Conservation Districts requests $15 million for the same program. Do you know why these increases are necessary?

Mr. ROBERTS. Well, the extension program, the Forest Extension Program—the first $3 million of that funding will be directed more to technical assistance at the State level. The last $3 million they are going to put into targeted projects. For example, a portion of that funding, if the 1990 farm bill includes the conservation reserve, could be directed to increasing more tree planting through the reserve.

We feel that again a lot of our requests are fairly conservative considering the national budget problem. So, we are recommending at minimum $6 million.

Senator BUMPERS. I think that is certainly a legitimate request. And let me tell you on the Conservation Reserve Program, I think we can even do better than 12½ percent. And some of us around here are going to offer, or some have offered and we will continue to offer, legislation to ask the Agriculture Department to improve that and up it very considerably. We need a lot more than 6 or even 12 percent of the CRP in tree planting.

Mr. ROBERTS. We concur completely with that.

Senator BUMPERS. Thank you very much for being with us, Mr. Roberts.

Mr. ROBERTS. Thank you, sir.

Senator **Bumpers**. Our next witness is the U.S. Hide, Skin & Leather Association. They are represented by Jerome Breiter and Mr. Charles Myers, president of the Leather Industries of America. Gentlemen?

U.S. HIDE, SKIN & LEATHER ASSOCIATION

STATEMENT OF JEROME J. BREITER, PRESIDENT

Mr. **Breiter**. Thank you, Mr. Chairman. I am Jerome Breiter. Mr. Myers will not be here this afternoon.

Senator **Bumpers**. Fine. We are glad to have you, Mr. Breiter. Please proceed with your testimony.

Mr. **Breiter**. Thank you very much, Mr. Chairman.

For the record my name is Jerome Breiter. I am the president of the U.S. Hide, Skin & Leather Association, the trade association representing the suppliers of leathermaking raw materials. I am appearing here today representing the membership of the U.S. Hide, Skin & Leather Association and the membership of the Leather Industries of America. Our two industries are united in supporting our appearance before you here today.

Our request to the committee is on behalf of the hide and leather research programs being carried out at the Agricultural Research Service's Eastern Regional Research Center in Philadelphia. The funding level which supports this program was drastically reduced in the early 1980's in favor of other research which was determined to be of greater importance at that time. It is our position that now is the time to restore these funds back to the hide and leather program.

In 1980 the hide and leather research program at ERRC had a budget of $2 million. For fiscal year 1989, that funding is at a level of $1.15 million. Taking into account the effects of inflation, the basic research so necessary to our industries is receiving about one-third of the funding it did a decade ago. While we believe we would be justified in seeking a funding level of $3 million which would be equivalent to a 1980 budget of $2 million, we realize there are many demands on the committee and on the budget in general. Therefore, our request is that the ERRC's hide and leather research budget be increased to the $2 million level it had 10 years ago.

With these new research dollars, we believe that new developments will be forthcoming which will find new uses for hide and leather products. New research will also create ways to add value to these unique natural products which will find markets worldwide and strengthen our already impressive program of exports.

The hide and leather research program at USDA had its beginning in the early 1900's here in Washington and moved in 1940 to its present location outside of Philadelphia. In my written testimony I have listed some of the achievements of the research that that program has developed.

Today the program that is being funded by that $1.15 million has several primary thrusts on research. They are hide preservation, waste utilization during hide processing, the role of noncollagenous components in the hide structure, novel tanning chemistry, and leather finishing.

In addition to continuing and expanding these important programs, we would suggest that the new funding be applied to the area of the conversion of hides to their natural finished product, leather, and here the concerns are primarily environmental.

Most leather tanned in the United States today utilizes the mineral chromium as the tanning agent. The process is quick and, therefore, efficient, and produces leather used in shoe uppers, garments, handbags, and other personal leather goods. Chromium, in addition to many other heavy metals, has come under increasing regulation in past year. Although the chromium used in tanning is in the trivalent state, there is growing concern that under certain isolated circumstances, it might be converted in the environment to the hazardous hexavalent state.

Therefore, research in the following areas is warranted because of the growing environmental regulation. We call for improvements in conventional chrome tanning, including improved chrome uptake and reduced chrome loss in industry effluent, new tannages which are nonchrome based, a better understanding of the aquatic toxicity of the industry effluent to meet more stringent water quality criteria, and studies on the fate of chromium solid waste disposal in soil environments.

We have discussed potential programs along this line with the scientists at ERRC, and we believe we have realistic goals. Specifically, additional funding would be directed to study the mechanism of tanning to determine why chrome is so effective. This would be done using newly developed technology including computer modeling, two-dimensional nuclear magnetic resonance and electron paramagnetic resonance. These new techniques are on the cutting edge of science. Once the mechanism of chrome tanning is understood, the knowledge can be applied to designing new tanning agents.

Additionally, in the area of hide cure, specific research would be targeted at defining the parameters affecting the curing of hides by radiation in order to determine optimum exposure conditions.

Both of these programs would find immediate applicability and be of great benefit to the industry.

Mr. Chairman, we have a tremendously fine existing relationship between our industry and the scientists at the Eastern Regional Research Center. There is continuing dialog between our groups, and this we believe has benefited our industries by having this exchange.

We know what must be done. We know how to do it, and we have the qualified scientists who can get the job done. What we need now is funding. We have a tried and proven record of cooperation with the ARS over many years, and it is our hope that our proposal will receive favorable consideration and that the appropriations level will be restored to the 1980 amount. We hope that you agree that this important work must continue.

Thank you for the opportunity for our two associations to present our points of view to you, Mr. Chairman. I will try to answer any questions you might have.

Senator **Bumpers**. Thank you, Mr. Breiter. That is an enlightening testimony. I didn't realize we did that research in hide and leather.

Mr. **Breiter**. We do.

Senator **Bumpers**. Would a portion of the $40 million budget request for ARS water quality research be available to the Eastern Regional Research Center for hide and leather programs?

Mr. **Breiter**. I don't know the answer to that, Mr. Chairman. There are several ARS laboratories, and I don't know the breakout of where that money goes. All I can tell you is that the funding for the hide and leather research, which is what we are looking for specifically, is in the area of $1.15 million. And we have the problem that I don't think that some of the water quality work that is being done is being done on heavy metals, which is one of the things that we would need to have work done, as I mentioned with the problems of chromium.

Senator **Bumpers**. Do you import all this chromium?

Mr. **Breiter**. A good bit of it, yes, sir.

Senator **Bumpers**. Where does it come from?

Mr. **Breiter**. South Africa primarily.

Senator **Bumpers**. Is that not on the prohibited list?

Mr. **Breiter**. Yes, it is. It was coming from there.

Senator **Bumpers**. What are we doing? Smuggling it out? [Laughter.]

Mr. **Breiter**. I hope not. Some of it is coming from some of the Eastern Bloc countries also.

Senator **Bumpers**. South Africa sells to Czechoslovakia, and then we buy it from Czechoslovakia?

Mr. **Breiter**. I wouldn't speculate on that.

Senator **Bumpers**. So much for the bans on South Africa.

Thank you very much, Mr. Breiter. That is a very good statement.

Mr. **Breiter**. Thank you very much.

Senator **Bumpers**. We'll try to do right by you, as we say in Arkansas.

The next witness will be Fermenta Animal Health, Inc., represented by Mr. Henry Bobe. Welcome to the committee. I have a feeling I'm going to learn something else here. Please proceed.

FERMENTA ANIMAL HEALTH, INC.

STATEMENT OF HENRY BOBE, PRESIDENT

Mr. **Bobe**. Thank you, Mr. Bumpers. I would like to thank you for the opportunity to appear before you today and address the need of the increased staffing for the Food and Drug Administration's CVM group, Center for Veterinary Medicine, in order to carry out the laudable purposes of the Generic Animal Drug and Patent Term Restoration Act of 1988.

My name is Henry Bobe, and I am president of Fermenta Animal Health. And our headquarters are in Kansas City, MO, and we have operations in Elwood, KS, Omaha, NE, and Fort Collins, CO. We manufacture both pioneer and generic drugs for feed additive use and for therapeutic use.

And I am proud to say that Fermenta was one of the original proponents of the generic animal drug legislation, recognizing the need to extend to the veterinarian drug industry the patent term restoration and increased availability of generic drugs which the

Drug Price Competition and Patent Term Restoration act of 1984, the Waxman-Hatch effort, afforded the human pharmaceutical industry. As a company in both the pioneer and generic drug businesses, we have long believed that it was important to make lower cost generic drugs available to the American farm community, as well as to increase the rewards for the difficult, expensive, and time-consuming work for developing new animal drugs.

I wholeheartedly support the principle that the Center for Veterinary Medicine should be given the resources it needs to fully implement new legislation. Only by providing the needed resources to implement the statute can the important benefits which Congress intended to bestow upon the public be realized.

Mr. Bumpers, when Waxman-Hatch was passed, Congress provided a specific line item authorization for the personnel necessary to carry out that very worthy statute. I urge that Congress do the same thing here. If FDA's manpower complement is simply increased to reflect the additional burden of administering this law, it is likely that the personnel who originally were intended to do so will be drawn off by competing priorities in an agency that is chronically understaffed. The specific designation of personnel to administer Waxman-Hatch has worked remarkably well in the human drug area, and we believe it is necessary to do the same for the animal drug field.

I have been provided with a document prepared by the CVM which is a summary of the personnel resources it believes are needed for implementing the generic animal drug legislation. That document requests a total of 36 additional full-time equivalent employees, and the Office of New Animal Drug Evaluation would receive 16, and the Office of Surveillance and Compliance would receive 5, and the Division of Veterinary Medical Research would receive 4, the Office of Management would receive 2, and the Office of the Commissioner would receive 9.

The document that I have does not specify what those nine persons in the Office of the Commissioner would do, but I would suggest that one-quarter of the total personnel complement should not go to the unspecified functions of the Office of the Commissioner. Indeed, fewer than one-half of the total full-time employees requested would go to the actual review of generic animal drug applications.

I believe that FDA's priorities need to be refocused so that the majority of the employees added for the carrying out of this legislation are put into the slots where they actually review applications. I expect that when the agency starts accepting applications, at least 100 ANADA's will be filed. Unless the Office of New Animal Drug Evaluation is fully staffed to process that caseload, the laudatory purposes of the act will be frustrated. Therefore, I urge the committee to increase the number of personnel dedicated to reviewing the processing of ANADA's and to reduce the personnel complement for management and surveillance functions.

And Mr. Bumpers, I appreciate the opportunity to speak to you, and also appreciate your efforts on the Manassas Battlefield efforts of last year, and ask for your support in the effort for the new congressional initiative that CVM requires. Thank you.

Senator **Bumpers**. Mr. Bobe, let me ask you something. I don't understand what this office is. We are talking about generic drugs——

Mr. **Bobe**. Yes, we are.

Senator **Bumpers** [continuing]. Instead of the popular names of these drugs. What do we get out of it? We have generic drugs for human ingestion. And I assume you can do the same things with animals, cattle and sheep and so on.

Mr. **Bobe**. Yes.

Senator **Bumpers**. So, what is this office set up for?

Mr. **Bobe**. Well, currently the office is set up for, as we would call, a normal drug application, a NADA. And what we are looking for is the generic bill would allow basically off-patent drugs to be approved under what they call an abbreviated review.

Senator **Bumpers**. As long as they were going to be used for animals?

Mr. **Bobe**. Yes, strictly for animals.

The problem that we see is that in the last several years, the CVM group has had somewhat of a problem with attrition in its people. It has not been able to bring on new people. Their workload has increased substantially. Last year they received, I believe, 4,800 requests for reviews and NADA submissions, 40 of which were brand new drugs.

And the point I think we are encouraging you to look at is the fact that with the application of the generic drug law, the timing to get a current drug approved through FDA is substantial. It is not 6 months. It's not 18 months.

Senator **Bumpers**. But if that is going to wind up in the food chain, why shouldn't it take as long as other drugs for human consumption?

Mr. **Bobe**. I think it is not a question of timing. I think it is the question of reviewing the data that is available.

Senator **Bumpers**. Who is Fermenta?

Mr. **Bobe**. Fermenta is an animal health company that originally started with the Shell Oil group and was divested when Shell went totally energy.

Senator **Bumpers**. Where are you located?

Mr. **Bobe**. Kansas City, MO.

Senator **Bumpers**. Are you president?

Mr. **Bobe**. Yes, I am.

Senator **Bumpers**. How many employees do you have?

Mr. **Bobe**. Four hundred.

Senator **Bumpers**. What do you do? What does Fermenta do?

Mr. **Bobe**. Fermenta is animal health sales, veterinary products, and over-the-counter——

Senator **Bumpers**. Do you sell drugs for animal use?

Mr. **Bobe**. Yes; strictly for animal use.

Senator **Bumpers**. Do you manufacture them?

Mr. **Bobe**. Yes, we do.

Senator **Bumpers**. Under license?

Mr. **Bobe**. Yes; under license, and some of them are our own patent products.

Senator **Bumpers**. What do you think about the OECD's complaint about antibiotics in our beef in this country?

Mr. **Bobe**. I think it is a restriction——

Senator **Bumpers**. Are you familiar with that?

Mr. **Bobe**. Yes, I am. I think it is a restriction on trade and not a——

Senator **Bumpers**. You don't think it is a legitimate complaint?

Mr. **Bobe**. No, I do not.

Senator **Bumpers**. I will say this. My father-in-law who was a cattleman—even before I became sensitized to some of this, I was a little concerned about how indiscriminately he vaccinated his cattle. Every time one of them sneezed, he gave them a shot of what he called combiotic. It was a combination of antibiotics.

Mr. **Bobe**. Yes, penicillins.

Senator **Bumpers**. And I had enough sense to know that some of that was going to be getting into my blood stream, and it worried me.

So, I have a tendency to come down on our side on that issue, that they are using it as a ruse, for example. I am not saying that they are wrong, but I think they are using it as a ruse.

Well, Mr. Bobe, this is all very interesting. I must say ain't nobody going to get funding for 35 new employees here unless it is for something that explodes. That's the only thing we spend much money for around here.

Mr. **Bobe**. I think the point that I would like to make, Mr. Bumpers, is the fact that whatever the number is, I think we would appreciate it if someone would make sure that since it was a line item issue in the act, that those employees are designated for review of the generic drug law. That is our real point. Thirty-five—I'm not the one that really makes the decision on what the true number is.

Senator **Bumpers**. I'll try to remember that, Mr. Bobe. And we thank you very much for coming out to Washington to be with us today and appreciate your testimony.

Mr. **Bobe**. Thank you very much.

Senator **Bumpers**. The Council for Agricultural Research, Extension and Teaching, Ms. Mary Grim. Ms. Grim, welcome to the committee. We look forward to hearing your statement.

COUNCIL FOR AGRICULTURAL RESEARCH, EXTENSION AND TEACHING

STATEMENT OF MARY GRIM, CHAIR

Ms. **Grim**. Mr. Chairman, my name is Mary Grim, and I am presently serving as chairman of the Council for Agricultural Research, Extension and Teaching, more commonly known by the acronym CARET. In addition to my affiliation with CARET, I come before you today as an example of the benefits received through the informal education offered by the land grant system.

On behalf of our membership, I would like to thank you for the opportunity to appear before this committee and to present our views on the vital agricultural research, extension and education programs of the land grant system. We appreciate the strong leadership that this committee has provided in safeguarding U.S. agriculture, and we urge you to continue these efforts.

CARET is a national grassroots organization of volunteer leaders from every State in the Nation as well as U.S. territories who are vitally concerned with the agricultural research and education programs conducted by our land grant universities. As volunteers, we work closely with the deans of each college of agriculture under the umbrella organization of the National Association of State Universities and Land Grant Colleges. We oversee the publicly supported programs which are conducted by our land grant system. As the grassroots user of these programs and services, we help in establishing the needs and setting the priorities for programs at the county, State, and national levels. CARET serves as both adviser and critique to the land grant system.

I want to assure Congress that the programs which are funded by you and provided to us at the local level through this unique land grant system are key in helping to improve the quality of life for all citizens of our country. The land grant system responds to any and all requests for their service. No one needs to qualify to receive these programs. The system is truly a program of the people, for the people and by the people.

Today, as chairman of CARET, I am before you to request on behalf of the millions of users of the land grant system, that Congress look at the fiscal year 1990 budget recommendations submitted by the division of agriculture of NASULGC. These funds are necessary if our system is to maintain its leadership. Continued support for base program funding is critical for this system to survive. These are the formula dollars which are distributed equitably to all land grant institutions to fund agricultural experiment stations, the Cooperative Extension Service and higher education efforts.

You will note on the document supplied to this committee earlier for its files that while our agricultural research and education programs have received modest increases in actual dollars over the last 10 years, our buying power has actually decreased 20 percent.

The land grant community, working through the joint council of USDA, has identified the following as critical national problem areas which the land grant system stands ready to address: water quality and quantity, expansion of biotechnology and its applications, maximizing human capital development in science and education, improving the understanding of relationships of diet, human nutrition and health, and genetically improving plants. As you can see, these five areas are interdependent and certainly address a broad spectrum of individual problems with which citizens of this country are constantly concerned.

Let me share quickly with you three examples which illustrate the work currently being done and what needs to be done in the future.

North Dakota State University has developed programs to reduce costs, conserve soil, water and natural resources and increase net income by developing drought resistant varieties of wheat and teaching effective tillage practices. These programs teach the farmer to reduce the use of fungicides and herbicides and to recharge the soil with nitrogen from natural sources.

In the Mississippi Delta area, agricultural production is extremely dependent upon the availability of adequate supplies of water. Water quality is also an issue in that same area when we speak in terms of the catfish industry, the rice industry, and related food safety areas. Mississippi State, through its research and extensions programs, has initiated a pilot project on pesticide container disposal as a continuation of concern for improved water quality and water conservation initiatives as well as pesticide safety. By combining the resources of the land grant system and other governmental agencies, Mississippi is addressing these critical needs before they reach disaster levels.

In Arkansas the University of Arkansas has provided leadership in developing commercial tomato varieties that are more agreeable to changing consumer habits which demand firmer and more flavorful tomatoes. This major effort has kept the fresh tomato market in Arkansas thriving.

Senator **Bumpers**. That is until the frost the night before last. [Laughter.]

Ms. **Grim**. Yes; I realize weather does impact.

Our land grant system provides us with the much-needed, unbiased information which we must have in making sound economical, environmental, and family decisions. For example, in Adams County where I live, we produce more than one-half of all the fruit grown in our State. We have been able to reduce pesticide use through a sophisticated, integrated pest management program developed by our land grant system. Combining computer-based decisionmaking systems and basic research, our integrated pest management program has provided the means for more economical farming and ecologically sound production practices. We cannot rely solely on the private sector for this vital information concerning agriculture, and we can expand upon applying these practices if we continue to receive your support for these programs. As you can see, encouraging use of these practices has far-reaching effects, from the turnrow to the kitchen table.

In addition, our capacity to remain competitive in a world economy demands the continued improvement of agricultural technologies. Our land grant system stands ready to address those needs through its involvement with the International Science and Education Council of the Office for International Development of USDA.

As has been stated by many Members of Congress and a position which I would like to reinforce on behalf of the membership of CARET is that we are equally concerned with the indifference that is shown by the general public on issues related to agriculture. People tend to think of Federal agricultural programs as welfare programs to the farmers. Agricultural research and education programs are a sound investment guaranteeing us a future. I am here to let you know that we as users of this valuable land grant system feel that agriculture in its broadest of senses is a matter of national importance, and it needs to be maintained as a priority with Congress.

I can assure you that the grassroots organization of CARET is diligently working in our home areas to education people about the source of their food, their clothing, their furniture, and the like. Most that we have in this world begins with an agricultural root, and we need to make certain that everyone fully understands that implication.

We recognize the adverse factors that you as decisionmakers must address in the budgetary process. We leave these decisions in your capable hands and ask only that you continue to consider the programs of agricultural research, extension, and teaching within the land grant universities as vitally important to the citizens of the United States.

Mr. Bumpers, thank you very much for the opportunity to appear before you. If we can answer any questions, we would be more than happy to.

Senator BUMPERS. Ms. Grim, I don't have any questions. You are preaching to the saved. I agree with you on everything you said.

Ms. GRIM. Thank you very much.

SUBMITTED QUESTIONS

Senator BUMPERS. Senator Specter did send some questions which we will submit to you and ask you to reply to those questions as soon as possible.

[The following questions were not asked at the hearing, but were submitted to the council for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SPECTER

URBAN GARDENING PROGRAM

Question. Why is there an urban gardening program in Philadelphia and what are your goals?

Answer. Over 300,000 Philadelphia residents are low income. The percentage of minority residents is increasing. The demand both for community food garden development and for educational and technical assistance is also increasing. Our objectives are to assist groups in garden leadership development, increase gross garden productivity by teaching new production techniques, encourage gardeners to share excess produce with neighborhood food assistance programs, and to preserve seasonal crops for use in the off-season.

Question. What does the program cost and how is it funded?

Answer. The total budget for the program is $300,000. Basic operations are funded through the Federal Urban Garden Program. Additional funding in 1988 came from the City of Philadelphia and the Commonwealth of Pennsylvania. Staff and technical education support is provided through the Philadelphia County office of Penn State Cooperative Extension.

Question. How successful is the program?

It wouldn't be an exaggeration to say that its success is nothing short of phenomenal. Let me tell you some of what we got in 1988 for that $300.000.

A total of 71,207 people participated in the program. 3,725 families, of whom 607 were new to the program, worked on community gardens.

There were a total of 527 Community Garden Sites in 1988. 85 of those were new, and they were in primarily Hispanic and Black neighborhoods.

714 youth were part of the Urban Gardening Program, and an additional 1,361 youth participated in a 4-H/Urban Gardening Program Hydroponics project. 3,000 preschoolers participated in a gardening day in the park. All totaled, youth participation increased 52 percent from 1987 to 1988.

Community gardeners produced $1,842,681.00 worth of fruit and vegetables ($494 per family) on 57 acres of "vacant lots." 81 percent of the families reported that they either canned or froze excess garden produce. The average family also shared its excess with 14 other family groups.

Question. I would assume that demand for the program remains high?

Answer. It most certainly does. As more people plant food gardens, their need for educational assistance increases. Previous work with youth has generated even greater requests for programming. The program touches people . . . it reaches people . . . and it makes a difference in their lives.

EFNEP PROGRAM

Question. What is the background of the EFNEP Program?

Answer. EFNEP, the Expanded Food and Nutrition Education Program, is a federally funded program that is jointly administered by USDA, State cooperative extension services, and county extension offices. The EFNEP Nutrition Education Advisers actually work out of the county extension offices and are supervised by extension home economists. The program was initiated in response to mounting evidence in the mid-sixties that millions of Americans living below the poverty line are poorly nourished and that access to food would not ensure good nutrition. EFNEP does not offer free food or food stamps. Instead, it offers something that cannot be taken away—the skills to plan a healthful diet on a small budget.

Question. Who do the nutrition advisers work with?

Answer. About 95 percent of EFNEP clients are women, 93 percent have children, 80 percent use food stamps, and 40 percent are enrolled in the Supplemental Feeding Program for Women, Infants and Children. Nutrition advisers also work with youth from 8–19 as part of the 4-H program.

Question. What did EFNEP accomplish in Pennsylvania last year?

Answer. In fiscal year 1988, EFNEP taught 6,256 adults and 8,813 youth with a staff of 94 paraprofessional FTE's and 8.8 professional FTE's. 26 percent of the youth participants were minorities, and 51 percent of them were new to the program. Participants demonstrated significant gains in knowledge of nutrition after being enrolled in the program.

Question. How is the program progressing?

Answer. EFNEP began using a new curriculum last year, which has provided more consistent programming throughout the state. More people are also being taught in groups, with shorter enrollment periods, improving the cost efficiency and effectiveness of the adult program. EFNEP touches people, and it changes their lives. As one of our home economists said: "If you go into a house where the gas has been turned off, where there's no food, and the children are hungry, it has to affect you . . . But a woman on welfare who's made it through the month, fed her family, and has two dollars left over knows she's learned something."

PLANT SCIENCE

Question. Is work currently underway that will improve plants that are economically important to this country?

Answer. Yes, it is. Let me give you three examples on what is happening at Penn State.

Oats provide protein, digestible energy and fiber to both humans and animals. The important part of the oat is the "groat" or the inside. The "hulls," or outside, must be removed by milling companies before processing the oats into food. Scientists at Penn State and USDA's Agricultural Research Service have cooperated to develop a new "hull-less" oat cultivar named Pennuda spring oats. Pennuda is especially useful in rations for poultry, swine and young animals and is also expected to be used in production of oat bran and other foods for humans. This "naked grain" oat will also reduce the transportation and dehulling costs for the milling industry.

Another example deals with ryegrass. Historically, ryegrasses had limited uses because of their coarse texture and poor mowing quality. They did, however, germinate and grow rapidly. Pennfine, developed by agronomists at Penn State, was one of the first of the new generation of perennial ryegrasses with dramatically improved qualities. It has a finer texture, higher density, improved mowing quality, considerable traffic tolerance and improved disease resistance. Given its rapid establishment rate, Pennfine is ideal for inclusion in seed mixtures for football fields and other heavily trafficked sites, including home lawns. Pennfine and other improved ryegrasses have had a dramatic effect on sports field management and the declining popularity of artificial surfaces. They have also had a significant influence on the safety of sports fields through the improved vegetative cover resulting from their use. They have had a significant economic effect on golf courses in the south. Because these courses are played on year-round, they needed a replacement grass that would grow rapidly but also have other important "playable" characteristics. Pennfine fits this bill "to a tee."

My third example is geraniums. Geranium production is a multi-million dollar international industry, and Penn State, one of the world's leading breeders, is the only university in the United States with an extensive geranium breeding research program. Dependable flower display and the ability to withstand buyer neglect have made the garden geranium the "bread-and-butter," crop of America's florists. It is only possible, though, because of the plant breeding techniques developed at Penn State. Using applied biotechnology, scientists can breed plants that have characteristics important to both buyers and sellers. Besides bringing beauty, the research has brought jobs and economic development. In part because of the Penn State research, production of regal geraniums could reach 20 million this year—up from 3 million in 1984.

Ms. GRIM. All right. Thank you very much.

Senator BUMPERS. Thank you.

Our next witness is Mr. Robert Gray, the National Center for Appropriate Technology. Mr. Gray, welcome to the committee.

NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY

STATEMENT OF ROBERT J. GRAY, POLICY CONSULTANT

Mr. GRAY. Thank you very much, Senator Bumpers. I appreciate the opportunity to testify this afternoon, and I will be brief knowing that your witness list is rather long. I will summarize my statement and I appreciate it if my entire remarks be inserted in the file.

Senator BUMPERS. They will be inserted in the file, and I appreciate your ability and willingness to summarize.

Mr. GRAY. I am representing the National Center for Appropriate Technology which is running a program, a USDA program. It is managing it, and the program is called Appropriate Technology Transfer for Rural Areas [ATTRA].

This program, Senator Bumpers, provides toll-free technical assistance and information to farmers, extension agents principally, but any other individual interested in learning more about sustainable agricultural practices.

And I would like to say at the onset that I have appreciated your support and understanding of the issue of sustainable agriculture. I think it is one of these issues like soil conservation was a few years ago when we got into the 1985 farm bill that is growing in interest and importance. We have seen conferences, seminars, all over the country recently. As a matter of fact, there was one held here in Washington a few weeks ago, and there were more than 500 people in attendance. They had to turn almost 100 people away because they didn't have the facilities at the hotel to accommodate them. So, there is growing interest in the farming community and in the research community in this issue.

I would like to just briefly state the three principal objectives of ATTRA. I will just read them very quickly.

One is to help agricultural producers investigate and implement sustainable agricultural practices to reduce the use of nonrenewable resources such as fuel, pesticides, and fertilizers.

Two—and I think this one is very important—to lower production costs by encouraging farmers to shift from purchasing off-farm resources to better utilization of on-farm resources.

And three, to help farmers use their soil and water resources in a more sustainable and environmentally sound manner.

The thing that I think is important about the whole sustainable system is it recognizes the importance of soil and water conservation which, as you know, Senator Bumpers, I have worked on myself for a number of years. That is a very near and dear issue to my own heart. But within the farming community, there is growing concern for ground water contamination. And I think most of the conservation groups think that probably in the long run the best thing we can do to help the farmers is to find new ways in which they can reduce those inputs and, therefore, reduce the possibility of contamination. I know EPA has documented ground water contamination in more than 23 States and in many areas, farming areas, of the country.

The other thing that makes the ATTRA program, this technology program, so important I think was underscored by a committee report that was prepared last summer, released last fall, on the House side by the Government Operations Committee entitled "Low Input Farming Systems: Benefits and Barriers." And I am just going to quote one line from that report. It says the report states that sustainable agriculture holds "great promise for preventing ground water contamination while reducing farmers' costs by minimizing or eliminating pesticide and herbicide use." However, they found that "despite widespread advantages associated with low input agricultural systems, the number of barriers to their widespread adoption is overwhelming." The report goes on to say that some of the principal problems preventing the adoption of sustainable agriculture technology is the lack of information available to farmers, in addition to mixed signals from USDA about its support for sustainable agriculture.

I think that probably ATTRA is being managed by a private, nonprofit organization, and therefore having good links to many private organizations that are working on sustainable agriculture issues is probably in a very good position to be between what is going on in the research field and getting this information in a timely and credible fashion to farmers as quickly as possible. I believe that the Government Operations Committee stated in their report that sometimes less than 12 percent of the information that is developed at the university level often gets out to the farmer in a very timely fashion. And that is why having one center where you can call in and get information and they can be in touch with a specialist maybe at another university and develop a very quick network, I think, is a very, very important aspect to transferring this technology in a rather rapid fashion.

I brought along with me, Senator Bumpers, for you and the rest of the committee a list, a breakdown, of the kind of questions that we have been receiving in the ATTRA program. The first year it ran—it was funded for fiscal year 1987 for $500,000, in fiscal year 1988, for $750,000. We asked for $1.5 million for fiscal year 1988. We received $900,000. For fiscal year 1990, we are asking the same that we did for fiscal year 1989, that is, $1.5 million.

Our questions break down in about six different major areas, and we have doubled the number of questions that are being asked by farmers and county agents around the country. Last year we handled about 3,000 technical requests. And these are not just informational requests, Senator Bumpers. Many times they require 3 or 4 hours of research on the part of the technical specialist that handles that particular area. We are now projecting that we will have somewhere between 6,000 and 7,000 requests this year.

That is one of the major reasons, of course, that facilitated our move to a land grant university. We relocated at Fayetteville, AR, on March 6. We have now been in operation there for about 5 weeks. We have the university facilities there available to help the staff to augment and supplement their research in order to turn these questions around as rapidly and as credibly as possible.

We have been welcomed by the university, a strong cooperation there, and that is very helpful. Even though we are a national program, we still have to have the resources and the tie-in with a land grant university, and that has been very, very helpful to this program.

But to quickly just run through before my time is up, the questions the areas break down in, as far as the type of questions that farmers and county agents and other people are asking today—the major question—43 percent of the questions come in on actually reducing input, practices that can help to reduce both pesticides and agriculture fertilizers in different kinds of crops.

Many of the questions right now come in more on fruit and vegetable crops. We are trying to encourage more farmers in the areas of some of the field crops, corn and soybeans, to look at some of the new practices that are coming on line and some of the other older practices that have been around for years on reducing those chemicals as well.

Animal enterprise questions, another area in which many questions are asked about use of feeds and antibiotics in animals and how that can be reduced.

A lot of questions are on marketing, questions that relate to diversification. Farmers are interested in diversifying and maybe moving to a low-input, sustainable system, but they are also interested in how they can develop a market if they diversify.

And then quickly, the last major area is integrated pest management. There is a lot of interest on the part of farmers in using different kinds of pest management approaches for insects and other kinds of pests in crops.

We appreciate the opportunity to testify. We think it is important that this program that now would be really in its second full year of operation be funded at $1.5 million. We think we can handle these questions rather rapidly and effectively, and I will be glad to answer any questions that you might have.

Senator Bumpers. Mr. Gray, I don't have any questions. I just have a strong feeling about this kind of a program, and I certainly wish you well.

I just came back from touring a number of places in South America, and out in the tropical rain forest, you don't hesitate to lean down and get a drink out of a stream because there is nothing within 1,000 miles of you. And in every other city in South America, you dare not drink the water.

And the contamination of underground water supplies in this country, as a result of all of these things, is proceeding at an almost exponential rate. It ought to be alarming to everybody, and I think it is increasingly a concern to everybody. And they are beginning to understand how this ecosystem works.

So, I don't know that we have the only range chicken processing plant in the United States, but we do have one that processes about 4,000 or 5,000 range chickens which have not been fed anything except pure foods with no herbicides or pesticides or anything in them. And that is becoming a red-hot—we have one rice farmer who farms 500 acres over in east Arkansas that he uses some animal waste, but only from animals which have not been fed feeds that have hormones and antibiotics and so on in them.

Mr. GRAY. There are more farmers doing that all the time.

Senator BUMPERS. He is doing extremely well, and his yields are comparable to those who are using a lot of fertilizer and so on.

Mr. GRAY. There is a lot of overuse of chemicals. As a matter of fact, I mention in my testimony, Senator Bumpers, that we, with the help of the ATTRA staff and other private, nonprofit organizations, conducted on-farm interviews in five different counties in the country on ground water contamination. And we will be releasing the results of those findings in a few more weeks. But we found that farmers are very aware of the problem of ground water contamination and are very concerned. And they are very receptive to this kind of new technology and changes in farming practices.

The thing is we need to move as much information as we can get. And farmers tell me when I can make one call and sort of have one-stop shopping, I can save myself a lot of time. Maybe that person on the other end of the line doesn't have all the answers, but they might be able to put me in touch with two or three people in other parts of the country that can give me those answers. And that is critical to a farmer who has to make major planning decisions on a certain crop or a livestock enterprise.

Senator BUMPERS. Well, Mr. Gray, I have always had a deep and abiding interest in this, and now that you are located at the University of Arkansas, I also have a provincial interest in this.

Thank you very much for being with us today.

Mr. GRAY. Thank you very much, sir.

Senator BUMPERS. Our next witness is the American Veterinary Medical Association and the Association of American Veterinary Medical Colleges, Dr. John Schmitz, chairman of the Department of Veterinary Science, University of Nebraska. Dr. Schmitz, please proceed.

AMERICAN VETERINARY MEDICAL ASSOCIATION AND THE ASSOCIATION OF AMERICAN VETERINARY MEDICAL COLLEGES

STATEMENT OF DR. JOHN A. SCHMITZ, CHAIRMAN, DEPARTMENT OF VETERINARY SCIENCE, UNIVERSITY OF NEBRASKA-LINCOLN

Dr. SCHMITZ. Mr. Chairman, I am head of the Department of Veterinary Science at the University of Nebraska, and I am here today to present the concerns of the American Veterinary Medical Association and the American Association of Veterinary Medical Colleges. Together we represent nearly 50,000 veterinarians and all of the university veterinary medical research and teaching.

I recognize the late hour, and I will proceed quickly. But I would like to start by making a point. Animal diseases constitute a major cost of the animal production. And they represent a threat, a persistent threat, to American public health and they impact on animal welfare. Despite this, the national investment in animal health programs is only about one-tenth of 1 percent of the annual loss due to animal diseases. We think this is a small investment in light of the economic concerns and the humane considerations involved.

The issues I would like to touch on include animal health and disease research, enforcement of animal welfare regulations, biotechnology research, and support of graduate students in all areas of agriculture, the Food and Animal Residue Avoidance Databank, the Generic Animal Drug and Patent Term Restoration Act, and the national agricultural research initiative.

We join with NASULGC, the National Association of State Universities and Land Grant Colleges, in requesting continued support for the animal health formula funds, section 1433, at a level of $5.848 million. This program provides continuity for animal health research in all the States.

We also support the special grants for the Animal Health Research Program, section 1414(2)(c) at a level of $5.705 million.

Senator BUMPERS. I have $8.705 million, Dr. Schmitz.

Dr. SCHMITZ. It's $5.705 million. I'm sorry?

Senator BUMPERS. Is it five?

Dr. SCHMITZ. It's $5.705 million.

National competition for grants through this program focuses superior research on problems that are targeted by our livestock industries.

We also support the NASULGC recommendation to increase funds in the animal science category of the Competitive Grants Program, section 1414(2)(b), to a total level of $14 million.

Senator BUMPERS. From what?

Dr. SCHMITZ. It is $6 million now. And the increase would——

Senator BUMPERS. That is more than a 100-percent increase.

Dr. SCHMITZ. Well, the increase would include funds for animal health research, but the recommendation has been to delete the Animal Health Formula Funds Program and the Special Grants Program. So, the net effect would be a loss of at least 25 percent, about 28 percent of funds available for animal health research.

And we don't support the recommendation for the increase in the one category if the other two programs are deleted. A compromise might be to continue the Animal Health Formula Funding Program, and to go with the animal science category increase as recommended in the President's budget.

The USDA APHIS is charged with enforcing animal welfare legislation. We concur with other research and animal welfare organizations that a $10 million budget is required for this program rather than the President's recommended level of $7.6 million.

We would also like to commend Dr. James Glosser who has led APHIS through a difficult transition to its new organizational structure.

Developments in biotechnology promise great opportunities for American agriculture, and we would like to support the President's recommended level of $21.6 million for this research program.

We support additional funds for graduate students in agriculture. This support is desperately needed to develop the scientific expertise that we need for the future. And we recommend a level of at least $5 million for this purpose rather than the $3 million that were recommended by the President.

Food safety is a major concern of the American public, and it is a top research priority for the livestock industry and industry-related groups. The best way to provide safe food is to produce disease-free animals and noncontaminated animal food products, together with improving detection and diagnostic methodologies. We support a new initiative in this area, in the area of food safety, at a level of $8 million and recommend that it be administered through the Competitive Grants Program.

We would like to recommend the earmarking of $180,000 for the Food Animal Residue Avoidance Databank which currently provides information that minimizes the incidence of drug and chemical residues in animal products.

We also support the implementation of the generic animal drug legislation by the FDA, as described earlier by Mr. Bobe.

Finally, Mr. Chairman, the ABMA and the AAVMC concur with other agricultural research communities that a new philosophy is needed for coordinating research support and research strategy at a national level. We support the national agricultural research initiative. We look forward to discussing this concept and including it in the new farm bill.

Thank you for this opportunity to testify. I would be happy to attempt to answer any questions you might have.

Senator BUMPERS. I don't think I have any questions for you, Dr. Schmitz.

Dr. SCHMITZ. Thank you, Senator.

Senator BUMPERS. Our next witness is the National Telephone Cooperative Association, Ms. Cheryl Borth, B-o-r-t-h. Ms. Borth, that is a rollcall vote, and that means I have to leave here in 5 minutes.

Ms. BORTH. This is longer than 5 minutes, Senator Bumpers.

Senator BUMPERS. Then I will have to turn you over to the staff after 5 minutes.

Ms. BORTH. OK.

Senator BUMPERS. Please proceed.

NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

STATEMENT OF CHERYL BORTH, DIRECTOR, CONSOLIDATED TELEPHONE COOPERATIVE

Ms. BORTH. Mr. Chairman, my name is Cheryl Borth. I am a director with Consolidated Telephone Cooperative in Dickinson, ND. Today I also represent the National Telephone Cooperative Association [NTCA], a national trade association representing almost 500 small telephone systems serving rural consumers in over 40 States. I appreciate the opportunity to present testimony to this committee on a subject of great importance to Consolidated Telephone Cooperative and to other NTCA members, namely, the Rural Electrification Administration [REA] and its telephone programs.

Our telephone cooperative serves approximately 4,000 subscribers in the rural part of North Dakota. We have an average density of only 1.2 subscribers per mile of telephone line, a very low density when compared to the telephone industry as a whole which averages over 50 customers per mile. The Bell companies serve about 130 customers per mile.

I want to thank this subcommittee for its strong support of the REA program in the past. REA made it possible for areas like ours to have telephone service in the first place.

Like other NTCA members, our first priority is to make affordable telephone service universally available to our subscribers in rural areas with quality equal to that of urban telephone service. That is why we find the new administration's fiscal year 1990 budget proposals for REA so distressing.

As the subcommittee members know, in its fiscal year 1990 budget proposal, the administration seeks to terminate all direct Federal support for telephone and electric loans from the REA and Federal Financing Bank [FFB] as well as discontinue capitalization of the Rural Telephone Bank [RTB]. Under this proposal, there will no longer be a direct loan program. Instead, REA will provide 70 percent guarantees on new loans that telcos would have to obtain from commercial lenders. Some of the changes that are requested would overturn legislation that was passed in 1987 that has greatly improved the operation of the Rural Telephone Bank.

We understand the continued budget constraints Congress must face, but the administration's fiscal year 1990 budget for REA would have a devastating impact on the program. The important thing to remember is that the benefits of the REA loans flow completely and directly to the customers served by the telephone companies. The REA program benefits rural Americans, not the companies and cooperatives serving them.

Modern telecommunications service is a vital part of rural America's infrastructure, and the REA Telephone Loan Program is the heart of rural telecommunications.

Mr. Chairman, the administration's budget proposals are unjustified and fail to take into account the rapid changes that are taking place in the telecommunications industry and the need to provide rural citizens the same access to modern technology and telecommunications services as those who reside in urban areas. This is increasingly important at a time when the rural economy is undergoing rapid adjustment and incentives are needed to encourage businesses and capital ventures to invest in rural communities.

Congress has been talking about the need for rural development in America's heartland and I commend these efforts. However, it is even more important to remember the support necessary for programs such as the Rural Electrification Administration. This program has been and will continue to be the backbone for rural development in those communities that are losing their resources, their financial base, and their young population.

REA borrowers continue to serve high cost, low density regions which means that large capital costs for new technology must be spread over fewer subscribers. REA plays a vital role in financing these technological changes because most borrowers, contrary to REA's assessment, don't qualify for commercial loans. REA fills the void by allowing telcos to purchase modern equipment that prevents rural Americans from becoming second-class service areas.

I urge the committee to reject the administration's REA budget proposal and encourage you to freeze REA and RTB lending at the fiscal year 1989 authorized levels, as well as maintain full capitalization of the rural telephone bank as authorized under present law.

Also in order to guarantee that REA meets the minimum lending levels established by Congress, we request that Congress continue its prohibition against REA's application of its general funds policy.

REA and RTB borrowers should be encouraged to promote rural development within their local communities. REA can be the successful rural development program it was meant to be with adequate funding and prohibition against policies that limit the benefits of the REA program.

Mr. Chairman, again let me emphasize NTCA's appreciation and support for the leadership you have shown in addressing the REA program. Your support has improved the quality of life immeasurably in rural America. I thank you for the opportunity to appear before you today.

Senator BUMPERS. Ms. Borth, let me tell you, first of all, that Senator Burdick—he has had a long day and I agreed to relieve him this afternoon—is going to be terribly sorry to miss your testimony.

This proposal of the administration is probably not going anywhere. This is not new with this administration or the one that preceded it. And I have a lot of rural telephone cooperatives in my State.

Do you know just offhand, incidentally, what the total amount of loans outstanding to telephone cooperatives are?

Ms. BORTH. No, I don't, Senator Bumpers, but I can get the information.

Senator BUMPERS. What is your current interest rate on loans from REA?

Ms. BORTH. It's 5 percent.

Senator BUMPERS. And what is the normal term of those loans?

Ms. BORTH. I believe our last loan was for 32 years.

Senator BUMPERS. How many subscribers do you have in your cooperative?

Ms. BORTH. Approximately 4,000.

Senator BUMPERS. And how many do you serve per mile?

Ms. BORTH. It's 1.2.

Senator BUMPERS. You said that in your testimony I think, did you not?

Ms. BORTH. Yes.

Senator BUMPERS. Do you know how many rural homes in America are without telephones?

Ms. BORTH. Not that many now.

Senator BUMPERS. There are still some in my State. It is just still not economical for anybody, cooperatives or otherwise, to go to their homes.

Ms. BORTH. Yes; I believe the statistics are 96 percent of people in America have telephones.

Senator BUMPERS. I tell you what you might do, and I am sure somebody will anyway, Ms. Borth, but somebody needs to furnish this committee with a lot of data on this so we will have an opportunity to take the administration on. I am certainly on the side of the angels on this one because I come from a rural State too.

SUBCOMMITTEE RECESS

But I am going to have to run and vote now. So, this concludes today's hearings. The subcommittee will meet on Tuesday, April 18, in room SD–138 at 10 a.m., and will review the ASCS, Foreign Agricultural Service, the Commodity Credit Corporation, the General Sales Manager, and the Soil Conservation Service.

Thank you and thank all of the witnesses today. We will stand in recess.

[Whereupon, at 5:07 p.m., Thursday, April 13, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, April 18.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

WEDNESDAY, APRIL 19, 1989

U.S. Senate
Subcommittee of the Committee on Appropriations
Washington, DC.

The subcommittee met at 2:12 p.m. in room SD–124, Dirksen Senate Office Building, Hon. Bob Kerrey presiding.

Present: Senators Burdick (chairman), Bumpers, Harkin, Fowler, Kerrey, and Grassley.

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

Senator Kerrey. The subcommittee will come to order.

Good afternoon, ladies and gentlemen. This afternoon we will continue our hearings to review the 1990 budget for Agriculture, Rural Development, and Related Agencies.

Today we are hearing from nondepartmental witnesses, a very important part of the hearing process, because we will hear from members of the public on how the programs appropriated by this subcommittee affect their businesses, their industries, and their lives.

I welcome all of you as witnesses and I would like to remind you that your written statements will be kept in a file by the subcommittee and will not go into the hearing transcript. Only your oral comments will be part of the transcript. Nevertheless, the written statements will carry the same weight as the oral comments.

The subcommittee is taking this measure in order to reduce printing costs.

The witnesses are asked to limit their comments to 5 minutes. There is a stopclock provided, so it would be appreciated if you could keep your eye on it and finish when the light turns red.

PREPARED STATEMENT

Senator Cranston was scheduled to deliver his testimony first. He will not be able to be here. He has asked, and without objection, his full comments will go into the record.

[The statement follows:]

STATEMENT OF SENATOR CRANSTON

Mr. Chairman, I appreciate the opportunity to appear before the Senate Subcommittee on Agriculture Appropriations to testify in support of fiscal year 1990 funding for a very important Department of Agriculture project—the construction of a new U.S. Salinity Laboratory in Riverside, California.

Since its creation in 1937, the U.S. Salinity Laboratory in Riverside has been engaged in basic research on salt-affected lands. The continuation of this research is absolutely critical to irrigated agriculture, not only in California but throughout the western United States.

As the members of this Committee undoubtedly know, the problems of salt and water salinity constitute one of the most urgent long-term threats to irrigated agriculture. Natural salts carried by irrigation water accumulate in the soil where they reduce crop yields, damage plant tissues, and can eventually render farmland incapable of crop production. The scope of the problem in the United States is enormous. Salinity is already a problem for about one-third of our irrigated lands in the west.

Over the years, the U.S. Salinity Laboratory has been the primary force in developing new concepts, techniques, and strategies to control salinity. The laboratory also serves as a major national resource in providing information and advising public agencies on salinity related issues. However, the work of the salinity laboratory is increasingly constrained by the fact that the facility itself has become obsolete.

In 1986 Congress authorized the construction of a new, state-of-the art U.S. Salinity Laboratory, estimated to cost $15 million. The new lab is to be located on the campus of the University of California at Riverside. The University has agreed to lease 7.5 acres to USDA for fifty years at $1 per year, thus providing the federal government a savings of $750,000 in land costs.

In addition to this savings, relocation of the salinity lab to the University campus will have the added benefit of facilitating interaction among scientists and consolidating and strengthening research efforts. The chemistry and physics programs at the University and the salinity lab are complementary, while the salinity lab's plant science program would enhance University research in this area and the economics program at the University would in turn strengthen the USDA program.

Congress has already appropriated $1 million for planning the new salinity laboratory and another $900,000 as the first increment for construction. The design work is nearly complete and the project will be ready for actual construction in fiscal year 1990.

Mr. Chairman, today I am asking the Subcommittee to provide $10.5 million in fiscal year 1990 for construction of the U.S. Salinity Laboratory in Riverside, California. This request is strongly supported by the University of California, as evidenced by the attached letters from Vice President of the University Kenneth Farrell and the Chancellor of the University of California at Riverside Rosemary Schraer. I ask that their statements requesting $10.5 million for construction of the U.S. Salinity Laboratory be made part of the Subcommittee's official hearing record. With this appropriation and an additional $3 million for laboratory equipment the project would be complete.

Mr. Chairman, I deeply appreciate your past efforts on behalf of the new U.S. Salinity Laboratory in Riverside and hope you will continue to support funding for this high priority project. Thank you for your consideration.

LETTER FROM KENNETH R. FARRELL, VICE PRESIDENT-AGRICULTURE AND NATURAL RESOURCES, UNIVERSITY OF CALIFORNIA

APRIL 11, 1989.

Hon. QUENTIN N. BURDICK,
Chairman, Subcommittee on Agriculture, Rural Development, and Related Agencies, Senate Committee on Appropriations SD-140 Dirksen Senate Office Building, Washington, DC 20510

DEAR SENATOR BURDICK: I am writing on behalf of the University of California and its Division of Agriculture and Natural Resources to reaffirm our continuing commitment and wholehearted support for the relocation and construction of the new U.S. Department of Agriculture Salinity Laboratory on the University's campus in Riverside, California.

Since its establishment in 1937, the U.S. Salinity Laboratory has been one of the great bulwarks in this nation's battle against salinization of croplands, in originating new concepts and strategies for water resource management, and in preserving water quality in the 11 western states dependent on irrigated agriculture—especially those along the Colorado River Basin. Many government, state, and regional agencies look to the U.S. Salinity Laboratory for leadership in water management and research on salinization, which constitutes the greatest threat to farming in the semi-arid regions of the American West. Maintaining water quality is ranked as one of the highest priority issues in America today in the Five-Year Plan that the Joint Council on the Food and Agricultural Sciences sent to the Secretary of Agriculture in May 1988.

In 1986, Congress authorized construction of a new Salinity Laboratory at an estimated cost of $15 million to replace the outmoded, deteriorating quarters of the present facility in Riverside. Subsequently, Congress appropriated $1 million for planning the new facility, and $900,000 toward construction. An appropriation of $10.5 million for brick and mortar needs to be authorized by Congress if the project is to go to bid as scheduled, with construction starting in April 1990 and being completed in April 1992.

The design phase of the project is nearly completed and a 7.5 acre site has been chosen. Our support of this project is shown by the University's willingness to lease the site for 50 years at $1 per year, thus saving the federal government about $750,000 in current land costs. In addition, the Riverside campus has committed itself to providing USDA scientists use of expensive equipment in its Analytical Chemistry Instrumentation Facility and access to the campus computer center and university library.

Further evidence of our support of the U.S. Salinity Laboratory on a statewide University level is the interest on the part of many of our University researchers in forming closer collaborative ties with USDA scientists on similar research problems involving salinity and water resources. The University's statewide Water Resources Center is headquartered on the Riverside campus. Involved in its operation and research projects are many of the University's top water and soil scientists from our Davis and Berkeley campuses in addition to those on the Riverside campus. The University looks forward to a cooperation with U.S. Salinity Laboratory researchers that could significantly accelerate and increase new discoveries and result in cost savings and greater efficiency in salinity and water research.

We are hopeful that during its current session Congress will allocate the funds needed to ensure that construction of this vital national resource begins on schedule in 1990. I earnestly urge your support for such an appropriation.

Sincerely,

KENNETH R. FARRELL.

LETTER FROM ROSEMARY S.J. SCHRAER, CHANCELLOR, UNIVERSITY OF CALIFORNIA, RIVERSIDE

APRIL 10, 1989.

Hon. QUENTIN BURDICK,
Chairman, Agriculture, Rural Development and Related Agencies Subcommittee of the Senate Appropriations Committee, U.S. Senate Office Building, Washington, D.C. 20510

DEAR SENATOR BURDICK: As Chancellor of the University of California, Riverside, I am writing to affirm our continued support for the relocation and construction of the new U.S. Department of Agriculture Salinity Laboratory on our campus, and to express our immense appreciation for the commitment and preliminary funding that Congress has already given to this high priority national project.

On July 22, 1986, Congressman George Brown and his co-sponsors, Congressmen Jerry Lewis and Al McCandless, introduced H.R. Bill 5212 to replace the outmoded and deteriorating quarters of the present U.S. Salinity Laboratory in Riverside and to relocate it in a new state-of-the-art research facility five miles away on the University of California campus. The House and Senate Appropriations Bill for fiscal year 1988 authorized $1 million for planning of the new facility. As evidence of its commitment, Congress appropriated $900,000 in the fiscal year 1990 budget to commence construction of the salinity laboratory, although this amount is not sufficient to go for construction bids.

Design work on the laboratory is now nearing completion as a result of cooperation between University planners and the U.S.D.A. and the firm of Holmes and Narver, Inc. The planning effort also led to selection of a 7.5 acre site on a knoll overlooking the east side of the Riverside campus. In short, the proposed project is on schedule and construction could begin as originally proposed in April of 1990 and be completed in April of 1992 if Congress authorizes the remaining $10.5 million in construction funds.

The University's enthusiastic commitment to this project stems from our belief that the presence of the U.S. Salinity Laboratory on our campus can through collaborative efforts of federal researchers and University scientists significantly accelerate and increase the quality and quantity of salinity research directed toward maintaining a viable agriculture and managing and preserving the quality of our water systems in eleven western states that are dependent upon irrigation. Problems of soil and water salinity represent one of the most urgent long-term threats to irrigated western agriculture in the twentieth century. The Joint Council on the Food and Agricultural Sciences in its *Five Year Plan for the Food and Agricultural Sciences* in May, 1988, gave top national priority to problems related to water quality.

The University's support of this national priority is affirmed by our willingness to lease the laboratory site to the government for 50 years at $1 per year, thus saving the federal government approximately $750,000 in funding at current land costs. In addition, salinity laboratory scientists will enjoy the use of specialized expensive equipment in the University's Analytical Chemistry Instrumentation Facility and have the advantages of easy and rapid access to our Computer Center and the vast resources of the University's Tomas Rivera Library. I am sure that U.S. Salinity Laboratory researchers will discover many other advantages and cost savings to the government in being situated on our Riverside campus, including increased involvement, cooperation, and the sharing of ideas with our faculty and graduate students who are carrying out research on soil and water salinity problems.

I hope that during the current session Congress will authorize the needed funding to ensure that construction of the U.S. Salinity Laboratory is completed on schedule in 1992, and I earnestly solicit your support and that of the Senate Appropriations Committee.

Sincerely,

ROSEMARY S.J. SCHRAER, *Chancellor.*

CONGRESSIONAL WITNESS

STATEMENT OF HON. LARRY PRESSLER, U.S. SENATOR FROM SOUTH DAKOTA

Senator KERREY. We would now ask Senator Pressler, who is here, to begin. Senator, we welcome you to the subcommittee. It is a pleasure to have you here.

Senator PRESSLER. Thank you very much, Senator Kerrey. I appreciate this opportunity.

We appreciate the leadership you have provided to our region of the country. I am very happy to appear before you today to place in the record my statements concerning the Northern Plains Biostress Laboratory.

This Northern Plains Biostress Laboratory would be located at South Dakota State University in Brookings, SD. A State funding match of $6.3 million for the laboratory was provided by the 1989 South Dakota State Legislature.

The $12.6 million funding for the regional facility is based on a 50-50 State-Federal match. I have worked on this closely with my colleague Senator Daschle, who has done a great deal of work on it.

The Congress provided $100,000 for a feasibility study and planning last year. A $6.2 million Federal appropriation is requested this year.

A USDA Cooperative State Research Service feasibility study of the Northern Plains Biostress Laboratory has resulted in an enthusiastic endorsement to date and recommends that the laboratory's regional scope be expanded to a national focus.

The Northern Plains region is truly a land of infinite variety. Weather records verify the large variations that can be expected in precipitation and temperature. During drought years, less than 10 inches of precipitation may be received. During wet years, more than 30 inches of rain may fall.

Air temperatures throughout the year may vary from minus 40 degrees or more Fahrenheit to over 110 degrees Fahrenheit. All seasons show extreme variability over the years.

Very few regions of the country, if any, show these extremes in temperature and precipitation. The weather extremes place much stress on plants, animals, and people living in the region.

The purpose of the Northern Plains Biostress Laboratory is to increase our understanding of the effects of biological and environmental stress upon animals, plants, and people. The laboratory would serve as a focal point for stress-related research in the region. It would benefit the region and beyond through rural revitalization and improved agricultural stability.

To summarize, Mr. Chairman, the development of sustainable and profitable agriculture in the Northern Great Plains would benefit the entire country. The region has outstanding scientists, agricultural research field stations, and an excellent history of conducting stress-related research.

Due to the natural weather-related stresses, native and introduced plants, shrubs, and trees contain valuable germplasm for stress research in the future. South Dakota State University has long been a leader in research relating to biostress.

Dr. Edgar McFadden developed the first stem rust-resistant wheat by crossing common wheat with a wild relative. More recently, the first spring wheat with resistance to Hessian fly was developed. It was estimated that Hessian fly damage to spring wheat in South Dakota caused losses in excess of $30 million in one growing season. New cultivars with resistance to Hessian fly greatly reduce the risk to spring wheat production in the Northern Plains.

The Northern Plains Biostress Laboratory concept has been developed to position South Dakota State University as a leading institute in the biostress-related research.

The laboratory has an integrated research approach.

Research in the expanded facility would be conducted by scientists from several departments, using shared facilities. Graduate students would benefit from the shared research concept by being able to draw on the expertise of many people in the biology, plant science, wildlife, fisheries, animal and range sciences, microbiology, veterinary science, and other departments within the College of Agriculture and Biological Sciences and other colleges within the university.

This integrated approach would enhance the biostress research effort.

And I am about to sneeze, excuse me. I made it, good.

Senator **Kerrey**. It must be the stress.

Senator **Pressler**. It must be the stress of this statement.

Senator **Kerrey**. Thank you, Senator Pressler.

Senator **Pressler**. I have additional Northern Plains Biostress Laboratory materials that you have and also take home to read in your spare time.

Senator **Kerrey**. OK. Thank you.

We will now hear the testimony of State Senator Sandra Scofield of Nebraska, on behalf of the National Conference of State Legislatures.

National Conference of State Legislatures

STATEMENT OF HON. SANDRA SCOFIELD, A NEBRASKA STATE SENATOR, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Ms. **Scofield**. Good afternoon and thank you, Senator Kerrey.

Senator **Kerrey**. Good afternoon.

Ms. **Scofield**. We are glad to have you here representing us from Nebraska.

I have already submitted formal written testimony and, with your permission, I think I will essentially do some informal remarks.

I am here today not only as a State Senator representing the State of Nebraska 49th District, but I currently serve as the vice chair of the Agriculture, Food Policy, and Rural Development Committee of the National Conference of State Legislatures, which serves the legislatures and staffs of the Nation's 50 States, its commonwealths and territories.

The Nation's legislators advocate a strong Federal commitment to the Cooperative Extension Service. NCSL supports a continuation in 1990 of budget authority or, if I have the jargon right down that you folks use here, CBO baseline levels for the Extension Service and the Cooperative State Research Service.

I want to make just a few remarks about what Extension Service means to people in Nebraska, and I think that is relevant to extension and research services nationwide. The Extension Service and the research services provided through that mechanism have a fine record of increasing agricultural productivity nationwide and promoting both economic and community development, particularly in rural areas, but even with additional emphasis in urban areas today as well.

The kind of agricultural research that goes on in the States is particularly important to a State like Nebraska, that is rich in ground water resources, and there have been significant amounts of research that are having major impacts in Nebraska in terms of the wise use of ground water and working with farmers to encourage them to use pesticides carefully and to have a less negative impact on the environment.

I would think from my own personal experience with the extension work perhaps one of its major advantages is it is an amazingly effective technology transfer mechanism. I do not know if there is another field in this country that can say that they can take research out of the laboratory and put it in the hands of practitioners any more rapidly than the Extension Service has been able to do.

It is a good model, and I have, in fact, advocated the use of that model in some other fields. Perhaps education in general should look at that as a mechanism that is tried and true and promotes the transfer of research out to people who most need it.

As I understand the current proposals, fiscal year 1989 appropriations were approximately $357 million and the fiscal year 1990 proposal is a significant decrease to $323 million.

I am here to emphasize that personnel and operations are already streamlined in these areas and cannot and should not be cut any more.

The Extension Service, in addition to being a good model for transfer of research, has demonstrated a successful partnership between Federal and State and local governments. And I think you would find that would be a strongly supported effort and well known and well understood nationwide at all levels of government.

As I emphasized earlier, NCSL represents the 50 States and several U.S. territories, and, in fact, the Extension Service and its research services serve the 50 States and several U.S. territories.

I would like to talk just a little bit about what I know best, and that is Nebraska. I have already mentioned the education programs for farmers in ground water and surface water protection. We have another program that I think has been very successful, called Managing Main Street Business, which is a program to help families with financial planning, to make assessments of business plans they might have. It has been very well received in the State and very effective.

I should mention as well, since there is a growing interest in the area of sustainable agriculture and because I am a legislator, that the California legislature has passed laws allocating grant money for sustainable agriculture programs, largely due to the influence and the work of the Extension Services.

We have a growing interest in the State of Nebraska in the area of sustainable agriculture, and I can attest to that just based on the kinds of mail I have been getting lately. I am on the appropriations committee in Nebraska and there is much interest in enhancing that area of research in particular in Nebraska.

I meet at least once a year with the people who represent my area, northwest Nebraska, who are involved in the Extension Service. They are a good, hardworking, dedicated group of people.

This year the kinds of areas that they are involved in, in addition to ground water protection, is a major emphasis on range management and range protection, since I represent a large cattle-producing area; a lot of interest in not only programs like Managing on Main Street, but other programs in terms of what you can do to help small communities thrive and grow.

And one that I have a particular interest in as chair of the Select Committee on Children and Families in Nebraska is the work that the Home Extension Agency has initiated in terms of children and family initiatives in small towns and rural communities.

They have been most helpful to me as far as drafting legislation and helping us work in terms of family-based activities in Nebraska, which you, Senator Kerrey, are more than aware of, given some of the good work that was started during your administration as Governor in that area.

So I would simply summarize by saying that it would be difficult for a State like Nebraska to survive any cuts. The State fiscally is unable to make up the kinds of cuts that might be contemplated at the Federal level, although we could not say specifically what the effect would be.

I think we would have a very difficult time of making up the difference. And I think there are probably few programs out there that are any more cost-effective and more important to rural Nebraska and rural America than the Extension Service.

Thank you.

Senator **Kerrey**. Senator, you mentioned a financial management program, On Main Street. The administration has actually slated two programs for elimination. One of them is the disadvantaged farmer assistance grant under section 1440. You may not be familiar with the reference numbers.

But the other one is the Financial Management Program, and I am curious as to whether or not, first of all, you know if that is the same program that you referenced as on Main Street, and if it is possible for you to comment at all about what the impact on the communities would be with those eliminations.

Ms. **Scofield**. As you have pointed out, Senator, I am not absolutely certain that that would fall under that particular designation. But if, in fact, it does, I have been impressed with the way this program actually goes out to people and works with them in their own communities. And I do not know that there is another program that I am aware of in Nebraska that is as effective as far as going out and giving the individual attention and effort toward individual families and small business that this particular program does.

I cannot, as I said, tell you specifically if that is precisely the program you are pointing at. But that is a very important service.

Senator **Kerrey**. It might be worth your while to ask NCSL to check to see if either one of these two reductions would have an impact. It seems to me that it is likely that the Financial Management Program is the one that you are referencing for Main Street businesses, and it is likely that the disadvantaged farmer assistance grants is as well.

The reduction is being made under the assumption, I suspect, that there are no longer any disadvantaged farmers that need assistance. But you and I both know that there is considerable stress still there, and farmers who are working to restructure Farmers Home Administration and Farm Credit System loans. And so I suspect that the program reduction would be felt.

Ms. **Scofield**. Absolutely, and I will have the NCSL staff check.

Senator **Kerrey**. The administration also proposed in its budget to require a State match of $37 million for a program known as the Expanded Food and Nutrition Education Program. Again, although it would be terrific if you were familiar with that program, I do not expect you to be well-versed in it.

But I call it to your attention again for the purpose of permitting NCSL to make a judgment as to what the impact of the change would be. In the absence of the match, the money will not be distributed to the Extension Service.

Ms. **Scofield**. Thank you. We will check on that. I appreciate the advice.

Senator **Kerrey**. Do you prefer to be asking people for money or having people ask you for money? [Laughter.]

Ms. SCOFIELD. I think it is easier to ask. There is nothing worse than having—you will appreciate this, Senator, having lived through the years when we made some very stringent cuts in Nebraska, and this year we just have just enough that——

Senator KERREY. Just enough?

Ms. SCOFIELD [continuing]. That folks are hoping that maybe they can make up for some of their losses. And I personally have to say that on the appropriations committee I do not know that it is any easier under those circumstances than it was in those days when we were cutting.

Senator KERREY. I hope you will pass on to your chairman what a nice, spacious room we have here.

Ms. SCOFIELD. I will do that.

Senator KERREY. And how much easier it is for the witnesses in Washington.

Ms. SCOFIELD. I will mention that to him. Thank you.

Senator KERREY. Thanks.

The next witness is Ms. Chris Foster, with the National Save the Family Farm Coalition.

NATIONAL FAMILY FARM COALITION

STATEMENT OF CHRIS FOSTER

Ms. FOSTER. I am here today on behalf of the National Family Farm Coalition, an organization comprised of 42 organizations in 35 States whose primary focus is on the survival of the family farm system in the United States.

The passage of the 1987 Agricultural Credit Act, with new borrower's rights provisions, was a major victory for farmers and farm advocates around the country. For many farmers, mediation is the key to making this law work. The demand for mediation services is at a record high, since over 100,000 borrowers will work through restructuring in 1989.

As a farmer and farm advocate, I request that the subcommittee appropriate the $7.5 million authorized for the Federal match for State mediation programs in the Agricultural Credit Act of 1987 for fiscal year 1990.

Farm businesses are viable when resolution of debt management is reached by both borrower and lender. Mediation is an essential tool in this process. Federal funding for State mediation programs is one of the most positive elements of the new credit law and is vital to ensuring that least cost solutions are reached.

It is through mediation that farmers' rights are best protected during the proceedings against them. Lenders are also afforded the opportunity to plan with borrowers for repayment of debt and the regeneration of investment assets over the long term.

Existing evidence indicates that mediation reduces fiscal and human costs of debt settlement for both borrowers and lenders. In the 14 States where some type of mediation exists, the results have been positive.

The Federal matching funds play an important role in establishing programs and expanding services, while playing an even more important role in States where the process of setting up mediation programs is going on.

I have had direct experience farming and working with farmers in both Illinois and Indiana. Indiana has a voluntary mediation program. Illinois has no program. The difference in the way a restructuring is handled is dramatic.

Two months ago my family relocated to Indiana after 15 years of farming in Illinois, the result of losing our own farm. In my case, mandatory mediation would have alleviated the need for our filing a chapter 7 bankruptcy. The specifics of our case are not unique, but have been repeated over and over again in the Midwest alone.

I will give you just a part of my story as an illustration. As a moderate-sized family farming operation in 1974, supporting two families on 450 acres, we were pressured by the economy to get bigger or get out. We bought the neighboring farm in 1978, which increased the size of our operation to 550 acres.

The decision to make this purchase was done on the advice of experts and with the approval of our creditors. Hindsight shows that drought conditions in southern Illinois in the eighties, coupled with the massive land devaluation and low commodity prices, have proven this land purchase to have been a bad decision.

Hindsight also shows that, had we been able to mediate our settlement during those years and work in accord with FmHA and the Federal Land Bank, as were farmers in Minnesota, where mediation programs are effective, our business probably could have been saved.

While there have been measures enacted legislatively to help debt-ridden farmers salvage their businesses, these are not being implemented fairly in Illinois. An example is that of a farmer with a you-pick berry business. This farmer was under a plan to lease back and eventually buy back his farm. Without warning or explanation, FmHA dropped his lease agreement.

When he appealed this decision, FmHA attempted to sell the property before his rights were appealed. After months of work with an Illinois farm advocate and intervention by sympathetic Members of Congress, the sale was halted and FmHA was forced to be accountable to the provisions of the 1987 act.

This is but one of many cases nationwide where FmHA has failed to operate under the regulations and in good faith. It took an Act of Congress to change this. This should not have had to happen. Mediation would have alleviated such a cause.

In another case in Illinois, a farmer has not been able to get financing for spring planting because his creditors are not willing to finalize negotiations in the absence of mediation. In effect this treatment or nonactivity starves farmers out and allows FmHA and FCS to circumvent the intent of the law by ending the feasibility of a farming operation at their discretion.

This is a continuation of the policy that FmHA practiced during the 4-year moratorium on foreclosures resulting from the Coleman decision against FmHA. These continued practices are inexcusable and farmers must be protected.

Mediation would enable farm businessmen and their creditors to establish realistic timeframes for negotiation and settlement.

Recent proposals in States without a certified mediation program raise concern. FmHA would use its own mediators or contract with mediators. Given FmHA's past history, this in-house attempt to mediate between farmers and FmHA could jeopardize important rights that FmHA borrowers should be receiving under a certified program.

The picture in Indiana is much brighter. Last year the Indiana legislature established a voluntary mediation program which operates in two areas. One is a counseling program, where farmers receive qualified help in formulating viable restructuring plans before submitting it for consideration by creditors.

In cases where resolution and acceptance of plans are problematic, the farmer and/or the creditor may request mediation. There is a 4-hour minimum and 12-hour maximum time requirement. Mediators are trained by the State and must be familiar with the operation and maintenance of farm businesses, as well as lending practices and liabilities.

The counseling project has served over 500 FmHA borrowers since it was established in October 1988. The mediation program has 100 cases pending, primarily resulting from FmHA 45-day notices and the responses that farmers have received from FmHA.

The mediation program has plans to hire new staff to meet the increasing demand for their assistance.

There are several reasons for matching funds for mediation programs. New State mediation programs could not operate without Federal assistance. This year much of the Federal matching funds were used for startup and training. The increased demand for services due to FmHA restructuring and acceleration requires even more funding at both the State and Federal levels.

The volume of mediation requests on certified programs has increased since the issuance of the interim final regulations of the Agricultural Credit Act of 1987. This is due to the large backlog of cases which have been on hold during the past several years awaiting credit reform, coupled with another difficult financial year due to widespread drought conditions.

Mediation programs have several components, all of which require funds. Mediators must be the best trained and must be accessible. Other costs include——

Senator KERREY. Excuse me, Chris. We are at the 5-minute mark.

Ms. FOSTER. OK. Can I just summarize real quickly?

Senator KERREY. Sure.

Ms. FOSTER. There are 14 active programs in mediation going on now. Nebraska has one, Iowa has one, North Dakota, Mississippi, and Wisconsin have mediation programs which have been funded and which are working at a successful level.

We worked with creditors to hammer out a law that both farmers and lenders could live with, and it needs to be implemented fairly. And we see mediation as the key to that.

In order to have the programs function effectively, we need the Federal matching funds in order to build strong mediation programs in our States back home.

Senator KERREY. Thank you.

The President's request for this mediation program is $2 million. In 1989, $3 million was appropriated. Is there an increased need over what was appropriated in 1989?

Ms. FOSTER. Yes, there is. There are new programs that have been established since then and there is an increased demand because of the FmHA—restructuring was not going on last year, really, until the final interim regulations were finalized at the end of 1988.

So really there has not been a lot of restructuring going on up until that point. In February, there was this massive amount of FmHA paper to be processed, and the demand is going to go on.

Another wave of FmHA notices came out or is going to come out because of people who defaulted in January. So this year is probably the critical year for funding.

Senator KERREY. How is the money used? For example, can it be used to pay legal fees? What sort of administrative costs absorb the money?

Ms. FOSTER. OK. In Indiana the program is funded—the counseling program is free to the farmer and the creditor, either one who wants to work with it. Mostly the farmers use that.

The mediation itself actually is shared, a shared cost by the farmer and the creditor. There are administrative costs, of course, to run the programs, and there are administrative costs of doing the educational outreach that is involved in running a successful program.

Senator KERREY. Can you comment as to the relative effectiveness of mandatory versus voluntary mediation?

Ms. FOSTER. Well, of course mandatory is preferable if every creditor is mandated to be there. The problem with weaker programs, where there is not mandatory mediation, is that maybe FmHA is the only one that has to show up and oftentimes is the only one that will show up. And this does decrease the effectiveness of the program.

In States where there has been mandatory mediation and other creditors are forced or pressured by the other creditors involved in the situation to show up, those programs certainly are more effective.

Senator KERREY. Thank you.

Ms. FOSTER. Thank you.

Senator FOWLER [presiding]. Ladies and gentlemen, we apologize for the shuttle system here, though it is not unique. With a $157 billion bill on the floor of the Senate, 10 times larger than any in the history of the country, we all have some responsibilities there that have kept us shuttling.

But we also appreciate your time and your effort in this testimony. So we will try to stay on schedule and move as swiftly as possible.

We now invite Mr. Ray Cato, Jr., treasurer of the Council for Rural Housing and Development. Mr. Cato, we welcome you. And as I am sure previous Senators have told you, we will certainly make your statement a part of the file, and any summary that you could give us rather than reading the statement would be acceptable, yea, even appreciated.

COUNCIL FOR RURAL HOUSING AND DEVELOPMENT

STATEMENT OF RAY CATO, JR., TREASURER

Mr. CATO. Very good, sir. Thank you very much, Mr. Chairman.

You know my name. I am an architect-developer and the owner of Cato Companies, a multidisciplined development company based in Portage, MI.

As you mentioned, I am also the treasurer of the Council for Rural Housing and Development, on whose behalf I appear to you today.

CRHD, as we call it, is a national organization made up of some 327 organizations, including 17 affiliated State associations. We have appeared before this subcommittee in the past to speak about the continuing needs of rural housing funding, and stand before you again today to regretfully report that the needs have not diminished, but in fact have increased.

Last year the Section 515 Rural Rental Housing Program was funded at $554.9 million. This allowed for the construction of 16,465 desperately needed units of housing at an average cost of $33,407 per unit. Unfortunately, this barely makes a dent in the great remaining need for rural housing.

A recent report by the Congressional Research Service indicates that almost 230,000 housing units in rural areas annually fall out of extant housing stock, while over 2 million of substandard housing remain occupied. There is an estimated annual shortfall of 75,000 units between the number of units being produced and the number of units falling out of the stock.

It should be noted at this time there is almost 1.5 billion dollars' worth of eligible section 515 projects nationwide that could be funded to provide desperately needed housing if the money were available.

A recent study conducted by the General Accounting Office concluded that, when compared to the Single Family Rural Housing Program and a voucher program, the section 515 program was least expensive and met the needs of very low income tenants.

The tenant of section 515 projects are the truly needy of rural America. In 1988 the average income for residents in the section 515 program was $8,256; 67 percent of those tenants had an average income of $6,013. The low-income housing tax credit, which is a benefit only for units occupied by very low income tenants, ensures that the tenant occupying section 515 units are the neediest tenants with the lowest incomes.

Rental assistance [RA] which makes up the difference between 30 percent of a tenant's income and the basic rent required to operate the project is a vital component of rural rental housing programs.

Last year the Rental Assistance Program was funded at $275 million. This is the bare minimum that is needed to continue expiring contracts, to make new projects work in very low income areas, and to provide a few desperately needed servicing RA units.

Mr. Chairman, the section 515 program continues with a default rate of less than 1 percent, despite some enormous difficulties faced by developers. Since 1984 the program has been cut almost in half, being reduced from $940 million to $504.9 million.

This year President Bush concurs with the Reagan budget, which leaves only $100 million for section 515 to be used in areas experiencing a tremendous housing shortage. I am talking about a proposed budget of $100 million, not the $554.9 million this year, last year, or the $940 million in 1984, but $100 million.

If we assume that amount was equally divided among 50 States, each of your States would be getting $2 million for 1990. That $2 million equates to approximately 60 units of new construction in rural areas, assuming it is not used for other servicing purposes. That is 60 units per State.

To make matters worse, tax law changes have left many developers wary of the stability of tax shelters as an incentive to build new low-income housing projects. This year, for example, it is still not clear when or if the low income housing tax credit is going to be extended beyond its 1989 sunset date, making it extremely difficult for developers to plan for 1990 projects.

Housing in America suffers acutely from the cuts in funding which have been made over the past several years. We appreciate the need for reducing the funding deficit, but fear the risk we take in further neglecting the housing needs of the rural poor.

Traditionally we have housed the working poor who have held jobs that do not provide them the income to live in decent, safe, and sanitary conventional housing. These people are no less needy than the elderly living on fixed incomes or the unemployed with children, who also live in our housing. Without the section 515 program, each person could become part of the growing ranks of homeless in rural America.

We hope that, whatever the outcome of the budget resolution, you would agree that rural rental housing not only deserves but must have the highest funding levels possible.

I trust we have given you a good overview of the housing situation and extreme need for more realistic funding in the section 515 program. Thank you for your invitation to testify here this afternoon, and we would answer any questions.

Senator Fowler. Thank you, Mr. Cato.

You just happened to come up on my watch. I am pleased to report that, for one Senator you have never seen before—I am a Georgian—that you are preaching to the choir, and I am part of the effort that you describe in your testimony in my capacity on the Budget Committee to try to come up with as much as we can in the neighborhood of the $500 million that you request.

Whether or not we will be successful, this has been a fight that has gone on for the last 6 or 7 years.

Mr. Cato. We understand that and we appreciate all your efforts.

Senator Fowler. And we will continue to do it.

Tell me this: Why is it in your opinion in Georgia, my State, for instance, we do have substantial numbers of inventoried housing in Farmers Home that is red brick and substantial and empty in rural areas? Why is that?

Mr. Cato. In trying to answer your question, I guess I would have to know a little bit more about it.

Senator Fowler. Well, do you have that experience in your or any other State?

Mr. CATO. Yes.

Senator FOWLER. Why do we have houses, inventoried houses standing empty?

Mr. CATO. I will make an assumption from my experience. We are experiencing the same things in Michigan, and what we are attributing that to is the new formulas that have been devised for determining rents that potential tenants will be paying for housing.

Using the 30-percent income, which is 30 percent of their gross incomes, we get into some fairly high levels of rent that these people are expected to pay. And we find that without rental assistance, many families are extremely burdened by that formula.

In reality, it gets to be much larger than 30 percent of their income. I think that that is one big item and probably the biggest item. I will assume that, with all the checks that Farmers Home makes on marketing and that we are dealing with fairly sophisticated developers who are conscientious because the success of the project falls on their shoulders or the limited partnership that they are dealing with.

It certainly is not a case of overbuilding an area or just being lackadaisical about pinpointing locations that need housing. I believe the housing is there. I think that the program and the formulas they are using are not allowing us to serve the very low income people that we are trying to target.

That is why it is necessary in my presentation to try to find as much rental assistance as we possibly can. This is going to allow us to reach down to those folks.

Also, if it is at all possible to work on the formula and change it in such a way that it would represent probably net income percentage, rather than the percentage of gross income, I think that would help substantially.

Senator FOWLER. Well, I appreciate that response. If you have additional resources through your Council for Rural Housing and Development, look into this question more thoroughly and see if there are other factors or flesh out that, and give us a written response. It would be a big help.

You can appreciate, it is very difficult to go get additional money for rural housing development when we are not using, when we have empty inventory standing on the ground, and that is a problem that we need to resolve, get people in those houses, before we can have a real chance of making the case for further development.

Mr. CATO. Mr. Chairman, let me just ask you a question that the executive director suggested. Are those 515 or 502 projects, which is a different program entirely? A 502 would be programs provided by nonprofit groups.

Senator FOWLER. It is not 502. There may be some 502. I am talking about section 515, Farmers Home.

Mr. CATO. We will research it and see, and we will certainly give you a written report.

Senator FOWLER. We do not usually allow the audience to ask questions, you understand. [Laughter.]

That defeats the purpose of all this vaunted lectern looking down on you.

But let us look into both of those and have something to do.

Mr. **Cato**. We certainly will.

Are there any other questions we could answer for you right now?

Senator **Fowler**. There are a lot, Mr. Cato, but I think because we have got so many people waiting we better try to basically stay on time. And we have got a lot of people here able to pick up the phone and call you as we work on this together.

Mr. **Cato**. Yes, sir; we definitely appreciate that cooperation. Thank you very much.

Senator **Fowler**. Thank you. Thank you, Mr. Cato.

TEXAS STATE UNIVERSITY

STATEMENT OF DR. SAM E. CURL, DEAN

ACCOMPANIED BY:

DR. ROBERT C. ALBIN, ASSOCIATE DEAN

DR. DAVID KOEPPE, CHAIRMAN, DEPARTMENT OF AGRONOMY, HORTICULTURE AND ENTOMOLOGY

Senator **Fowler**. We will now hear representatives from Texas Tech University: Dr. Sam E. Curl, dean; Dr. Robert C. Albin, the associate dean; Dr. Robert Koeppe.

Dr. **Koeppe**. Yes, sir.

Senator **Fowler**. Did I say it right?

Dr. **Koeppe**. Yes; that is right.

Senator **Fowler**. Have any of you gentlemen been at Texas Tech since before 1972?

Dr. **Curl**. Yes, sir; two of us here, Dr. Albin and myself.

Senator **Fowler**. Do you remember when I was there? I was there—no, wait a minute. It was not 1972. Who was our former Secretary of Defense? Don Rumsfeld. I debated Secretary Rumsfeld at Texas Tech in 1964, as a matter of fact, in the middle of the Vietnam War, for 2 hours and had a wonderful reception there. That is mainly because most of the kids were on my side, which I appreciated.

Welcome, dean and gentlemen.

Dr. **Curl**. Mr. Chairman and members of the committee: I am Sam Curl, dean of the College of Agricultural Sciences at Texas Tech University. With me today are Dr. David Koeppe, director of our Institute for Plant Stress Research, and Dr. Robert Albin, associate dean for research. We are most appreciative for the opportunity to appear before the committee today on behalf of urgently needed research in the area of plant stress and water conservation.

In 1988 the 100th Congress enacted Public Law 339, authorizing the establishment of a plant stress and water conservation research laboratory and program at Lubbock, TX. The laboratory will provide facilities for scientists to conduct broadly integrated research to improve crop stress tolerance to drought and temperature extremes.

The extensive drought of 1988 has left reserves of many cereal and oil seed crops at near historic lows. Stockpiles of wheat today are at 15-year lows, with little chance of improvement in the immediate future due to the continued effects of the 1988 drought in the Great Plains and other nonirrigated regions of the United States.

Projections of continued water shortages make the funding of construction of the authorized plant stress and water conservation laboratory at Lubbock and the research required to genetically alter crops to ensure tolerance to future climatic extremes particularly critical.

These extremes are widely predicted to increasingly impact most plant growth patterns in the Northern Hemisphere from now through the first part of the next century.

Our appropriation request for fiscal year 1990, the 11th year of the Plant Stress and Water Conservation Research Program, emphasizes the need for program consolidation into a central laboratory on the Texas Tech campus, where scientists will find the opportunity for synergistic development of new, innovative strategies of scientific experimentation and where Texas Tech academic programs and support services can be fully utilized.

An appropriation of $8.5 million is requested for design and construction of phase one of the plant stress and water conservation laboratory. The total cost of the building is estimated to be $17 million.

This request has been reduced from the previous request through modification of program priorities and the opportunity to substantially lessen the construction costs through a close integration of laboratory, glasshouse, and office space with the existing Texas Tech facilities.

The Federal Government through USDA ARS and the State of Texas through Texas Tech University and the Texas Agricultural Experiment Station have put a comprehensive, integrated program in place over the last 10 years, which currently involves the work of 17 senior scientists.

To be optimally effective, scientists from all three agencies should be housed together in a central facility that will permit ready exchange of ideas and strongly foster cooperative research.

In addition to the current annual research program funding of $1.4 million, we are requesting an appropriation increase of $450,000 for enhancement of the Molecular Biology Research Program linking the continuum of plant genetics and breeding to the newest molecular laboratory biotechnologies. This research will focus on understanding the genetic control of plant mechanisms which result in drought and heat tolerance.

The Plant Stress and Water Conservation Program at Lubbock has attained an international reputation for its basic plant stress and water conservation research. Its programs are uniquely situated to provide answers to questions posed by global climate change and atmospheric warming.

Scientific programs and relationships have been established with scientists with numerous other organizations both from the public and private sectors. These existing linkages will maximize the impact and transfer of program information to users at both the applied and basic ends of the scientific continuum encompassed by the program.

With the assistance of Congress through construction of phase one of the authorized laboratory on the Texas Tech University campus and a modest increase in program support, this program will significantly impact the growth of plants in the harsh environments that are and will continue to be major areas of food and fiber production.

Mr. Chairman and members of the committee, we appreciate your support and continuing interest in this extremely important and timely research program. Thank you very much, and I would be pleased to respond to any questions you may have.

Senator **Fowler**. Dean Curl, thank you.

I see that you have already—I am told by counsel that you have already helped us and helped your own case by reducing the appropriation request down $10 million.

Dr. **Curl**. Yes, sir.

Senator **Fowler**. Which we appreciate. I will not ask you which part of the stress you eliminated to get down there.

The other thing is that it is rare—actually, you may not know this—for us to have an authorization for a building.

Dr. **Curl**. Yes, sir.

Senator **Fowler**. Because it is a Federal facility. Most of the buildings do not come through the authorization process. So that will probably help also.

Dr. **Curl**. Thank you very much. We can build an excellent research facility for $17 million.

Senator **Fowler**. You will name it after Buddy Holly?

Dr. **Curl**. No, sir; we had not planned to do that.

Senator **Fowler**. I agree with you, and I am glad that the Government is—you know, we are trying to be a little bit ahead of the curve. I think certainly water conservation issues are going to be big issues in our part of the country.

In my part of the country we have had near-drought conditions for 7 or 8 straight years. We just missed the Federal definition of what a drought is, but that did not help the farmers.

Dr. **Curl**. Right.

Senator **Fowler**. Or the plants and crops in the Southeast.

I know also that you have a rough time in that part of Texas always with the weather.

Dr. **Curl**. Yes, sir.

Senator **Fowler**. So it should be an ideal location for this kind of a research institute.

Dr. **Curl**. We certainly believe so.

Senator **Fowler**. The first phase is $8.5 million?

Dr. **Curl**. Yes, sir.

When we designed the research laboratory 10 years ago, the research program was just getting off the ground. And as it has evolved, it is a different kind of research program. It is more laboratory-oriented than it was at that time, and we have been able to eliminate a large atrium area and some of the greenhouse space and some of the built-in laboratory equipment that we have been able to acquire with the research funding.

So we can do an excellent job with $17 million.

Senator **Fowler**. Well, that is so rare, to hear somebody testify that they can do an excellent job with only $17 million, that we ought to try to help you.

Dr. **Curl**. Thank you very much.

Senator **Fowler**. Thank you very much.

Dr. **Curl**. We certainly appreciate your consideration.

Senator Fowler. Thank you very much.

The National Association of Wheat Growers, Mr. Carl Schwensen, executive vice president.

Did I pronounce your name right, Mr. Schwensen?

NATIONAL ASSOCIATION OF WHEAT GROWERS

STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT

Mr. Schwensen. You got pretty close.

Senator Fowler. Well, make it closer.

Mr. Schwensen. Swen'-son.

Senator Fowler. Swen'-son. That makes a lot more sense. Thank you, Mr. Schwensen. Welcome.

Mr. Schwensen. Thank you, Senator Fowler.

The subcommittee has my prepared text. It deals with four topics. What I would like to do here, because I notice some other of the witnesses before the subcommittee will be touching on the same topics, is to pull out a couple to emphasize and to talk a few minutes about very briefly here this afternoon.

We are interested in the Export Enhancement Program, additional funding for USDA's Foreign Agricultural Service, which is the frontline agency for maximizing our sales overseas, funding for continued Russian wheat aphid research, a serious problem that now is being experienced in about 15 Western States, and finally, some additional funding for wheat quality laboratories.

The Export Enhancement Program began in 1985 as part of the budget reconciliation bill and bumped along for a few months, and then finally took off in 1986. And over the past several years, it has generated a reduction in surplus wheat stocks of about 70 percent.

We are down now to a level that is able to generate stronger market prices at a time when Government support target prices are declining. So we feel like it has been very successful.

It also has transferred a considerable amount of pressure onto the back of the European Community, and I think Secretary Yeutter would agree that it has done a lot to bring them to the bargaining table and to bring about the level of success, however much that is, that has been achieved thus far in the GATT negotiations.

Currently the bonus program, also called export enhancement, operates with very nominal subsidies.

Senator Fowler. Very nominal subsidies?

Mr. Schwensen. At one point they had been as high as $40 a ton. Now the program is down to $6 a ton, and it is not as active as it has been. It probably does not need to be as active.

However, grain marketing is a cyclical kind of thing and we are getting ready to harvest a crop now as Australia is beginning to plant one. So there is something happening all around in the world wheat market.

A couple words about the Russian wheat aphid. It entered from Mexico in about 1986 and in 2 years it spread through 15 States and into Canada. So it is a very active pest and it is a serious pest that we have found difficult to control with insecticides.

The aphid is able to get inside the wheat and barley plant and curl the leaf around itself, creating like a shower curtain, if you will, so that it is not exposed to insecticides when they are sprayed.

There has been some research carried out by the Agriculture Department. It has largely been from money from borrowed accounts. There was a Russian wheat aphid task force which issued its report earlier this year and we support the recommendations of that task force.

It seeks $9.5 million a year for 10 years. Certainly we agree with its conclusions, and the task it outlines needs to be done because this is an uncommon pest and it is creating serious crop losses.

Senator FOWLER. What do they say? What are they going to do with that money?

Mr. SCHWENSEN. They have got an integrated pest control, insecticide study, biological and ecological studies.

Senator FOWLER. In other words, it is basically a research program?

Mr. SCHWENSEN. It is a research program.

Senator FOWLER. They already know that whatever they tried in the original insecticides do not work.

Mr. SCHWENSEN. That is right.

Senator FOWLER. Because of the shower curtain effect.

Mr. SCHWENSEN. That is right.

The program also calls for wheat breeding research so that we can try and develop varieties of wheat that are resistant to the aphid. And it is not going to be easy. They are also looking for predator pests.

The program and the task force report is very comprehensive, and since we do not know in what one area we might discover results I think it takes a broad approach like this.

Last, wheat quality laboratories. They have been established in four different locations around the country: Fargo, ND, Pullman, WA, Manhattan, KS, and Wooster, OH.

They were established during the period of 1936 to 1963, and they have been very helpful to deliver research into wheat quality and desirable characteristics, so we can select wheats that yield the kind of flour and the kind of bread that millers and bakers and consumers want.

There has been virtually no increase in the funding for these research laboratories over the past 10 years, and we are hopeful that the subcommittee might look at buying some additional research.

As time has gone on, we have seen varieties of wheat developed for yield which probably have poor baking qualities, and we need to see better varietal development so that we can have varieties that will be profitable for the farmer and also will be desired in the marketplace.

That concludes my remarks.

Senator FOWLER. Thank you, Mr. Schwensen.

Did you see the report in the paper a few weeks ago about the African device that has now almost eliminated the tsetse fly?

Mr. SCHWENSEN. I did not notice that.

Senator FOWLER. Well, I do not know. You know, we all deal in these art terms around here. I am a city boy. I do not know the terms of art. But it has always been obvious to me that if you kill off, you know, some of the predators that prey on the pests, then you have got problems.

We have seen in big killer bees that the more you zap them with the chemicals, the more resistant they have become and more ferocious, I guess. I do not know why those chemicals made them meaner.

And after billions of dollars—I remember when the mayor of Atlanta, Ivan Allen, was bitten by a tsetse fly 30 years ago and almost died. They have done everything they could to get rid of the tsetse fly.

Well, they have now developed—the natives developed sort of a tent that has got the colors that a tsetse fly likes, and then they have got a mirror down there that makes it look like he is going outside. But he just crawls down and then gets sucked up in this jar and electrocuted or something.

They get about 10,000 an hour, and in whole areas of Africa that have never been able to graze cattle, almost devoid of human habitation because of the deaths from the sleeping sickness that comes from the tsetse fly, they have eliminated them in 2 months.

I do not know how we get a part of that $100 million if we vote this. It just seems like we have got a great opportunity for alternative techniques in dealing with a new pest that might be looked into. I would sure like to see some nontraditional examples be researched and tried. That is just my own musings out loud.

Let me ask you a couple of questions. I am asked to ask you, in light of the administration's remarks about the Export Enhancement Program today, which you probably heard, and yesterday also, do you believe that the stocks are so low that the EEP sales ought to be limited or suspended at this time?

Mr. SCHWENSEN. No, we do not, Senator. We think that the stocks are adequate. There are a number of offers under the EEP Program that have not been picked up off the table. So there is a good deal of business that is probably not going to be occurring between now and the end of May.

We are aware of the concern that the Agriculture Secretary and others have about the condition of the crop in Kansas, and there are some real tough areas out there, I am sure. But overall, while our stocks are down to a 15-year low, we still think that they are adequate to bridge sales between the ending of this current marketing year on May 31 and June 1.

Senator FOWLER. Clear it up a little bit more for me. How do you weigh? If you hold up EEP sales, would that be in your opinion more a result of low stocks or the budget restraints imposed by OMB.

Mr. SCHWENSEN. I think it would be low stocks, Senator, or a perception, a fear of low stocks. But it also means that we are going to be losing important business. The Soviets have made it clear and the markets understand that they would like to buy 1 to 2 million tons of wheat for delivery in May.

And if the program is stalled or postponed, why, that is business that American farmers will not have, and it will lead to lower exports and higher stocks than we had expected to see.

Senator FOWLER. Thank you, Mr. Schwensen, very, very much.

Mr. SCHWENSEN. Thank you, sir.

[Pause.]

Senator **Fowler**. I am going to ask Senator Grassley from Iowa to chair the next panel, which is the National Council for Vocational and Technical Education in Agriculture, Mr. Jay Eudy from Texas and a constituent of Mr. Grassley's, Mr. Tom Cory from North Polk, IA.

Senator **Grassley** [presiding]. Welcome, and thank you very much for representing not only your profession well, but also in your case, Mr. Cory, the State of Iowa. Thank you and please proceed.

NATIONAL COUNCIL FOR VOCATIONAL AND TECHNICAL EDUCATION IN AGRICULTURE

STATEMENTS OF:

JAY EUDY, STATE DIRECTOR OF AGRICULTURAL EDUCATION, TEXAS EDUCATION AGENCY

TOM CORY, HIGH SCHOOL TEACHER, NORTH POLK, IA

Mr. **Eudy**. Mr. Chairman, it is a pleasure to be here to present our views in the area of education in agriculture. I am Jay Eudy, State Director of Agricultural Education in Texas. With me today is Mr. Tom Cory, teacher of agricultural education in North Polk, IA.

We are here on behalf of the National Council for Vocational and Technical Education in Agriculture. It is a leadership umbrella organization representing all entities and levels of formalized instruction in agricultural education.

There is a need for students in secondary, postsecondary, and adult education to focus their attention on the rapidly emerging industry of aquaculture. The future availability of water for rural and urban uses and the impact of human activities on its quality has intensified in recent years.

Just recently the Oceanic Institute was doing some research where they used algae to clean up the water and then used tiny shrimp to eat the algae after it cleaned up the water and tried to come up with an edible product for human beings and usable water. These are just one of the things being done in water.

Our proposal here today is a project of infusing aquaculture education into the education curriculum, and it can be summarized in five questions: what, where, how, who, and why?

First, the what. This proposal has been prepared to establish demonstration aquaculture education programs in public schools and community colleges. Included will be curriculum development, teacher inservice and facility design.

Second, where. Five sites from throughout the United States will be selected.

How? The Council requests an appropriation under the authorization of the farm bill to establish this program. The U.S. Department of Agriculture will be the agency responsible for the financial arrangements. We are requesting an appropriation in the amount of $765,000 for fiscal year 1990.

Various USDA agencies and the Appalachian Regional Commission have contributed funds for our initial planning effort.

Fourth, who? The U.S. Department of Agriculture, in cooperation with the National Council for Vocational and Technical Education in Agriculture, will provide overall leadership at the national level for this project.

And last, why? Opportunities in aquaculture are expanding at a rapid rate. There is a tremendous need for individuals who have education and skills in the area to work in the aquaculture industry.

Recently at one of our meetings in a major city in the Nation, I was approached by someone who asked me if I might be involved in education. There was another meeting going on there. And I said, yes, I am, it is agricultural education.

He said, let me tell you how it was up near Baton Rouge when I was going to school. We learned to use soybeans along with our grain to feed livestock, such as cattle and swine and poultry, and we could produce a better animal. And do you know what they are doing now? They are trying to feed that to fish and they are trying to produce a fish that tastes more uniform and does not taste like mud. I presume he was talking about catfish.

Later, the next day as I had an opportunity to visit with the American Farm Bureau people, about 20 States represented there, and the question was asked of those people—and they were the aquaculture specialists from those States and they were asked, how many of them had formal training in aquaculture?

Not one had any formal training whatsoever. They said, we are learning by the school of hard knocks. We hope to avoid some of that with our proposal.

Young persons entering the agriculture community must be exposed to the trends of aquaculture as well as the scientific principles regarding fish husbandry. Teachers must be conversant in the principles of fish farming. Water quality, genetics, reproduction, nutrition, feeding, health maintenance, disease control, engineering, and pond management are just some of the things that we can go into, as well as the economics of production and marketing.

These things are all covered in land-based agriculture also, but not nearly to the complex level they have to be for aquaculture activities.

Mr. Chairman, this project will mean increased jobs and economic development. We in the agriculture education community believe that through our delivery system in rural America that we can provide the necessary orientation and education that will make a difference in this agricultural industry.

This is an exciting project that will take the cooperation of a number of individuals and organizations for it to be successful. The need is tremendous. The technology is available. The educational climate is right for individuals to become a part of this dynamic industry.

We appreciate the time that you have given us this afternoon and we would welcome any questions that you might have.

Senator GRASSLEY. Mr. Cory.

STATEMENT OF TOM CORY

Mr. CORY. To give a little background about how I got started in aquaculture, I basically saw a lot of interest coming from some of the businesses in our area. Some of the grain elevators saw that they could market the byproduct of corn by putting it into a pellet, and with 80,000 farm ponds in Iowa they thought this would be an interesting way for us to add to our curriculum.

And I found an extreme amount of interest with young people also starting in that area. So we set up five tanks in our classroom in the North Polk Community School District, and we started learning about aquaculture, using tropical fish to begin with because we had to kind of walk before we could run.

And along the way we found a lot of problems with disease and with feeding, as well as water quality and water temperatures. And so we enlisted the help of some former students who are now adults in the community that were working, and we saw working through them that we could work with young people. But they had no formal training, and so thus our working and training with aquaculture became very slow.

That was our first introduction to it.

Senator GRASSLEY. Well, thank you very much. I am particularly glad you came from Iowa to Washington to share your experience in vocational agriculture and aquaculture.

And I know yesterday, Tom, we had a chance to visit about your aquaculture program in North Polk High School. And by all appearances you have done a tremendous job in developing an aquaculture curriculum on your very own, having already developed a curriculum at your school.

Of course, I am interested to know why you feel this national program is necessary. You need to be congratulated on your initiative in developing this program, and I hope that if we are able to fund this program the council will take advantage of your expertise in this area.

Mr. Eudy, you have talked about utilizing USDA regional aquaculture centers as a resource for this program. I am encouraged to hear this, since one of those centers is located in my home State of Iowa. So I would like to have you, if you would, go into some detail as to how pilot schools you select will work with the USDA regional centers.

And then maybe, Mr. Cory, you could follow that up with why this project is important to Iowa.

And I am going to have to leave now and read your answer in the record. But my colleague Senator Harkin is here and he and I share these views. The reason I have to go is because at 3:15 we have stacked votes in the Budget Committee where we are completing our final action.

So thank you very much and I will read it in the record.

Mr. EUDY. Thank you, Senator Grassley.

To answer the question on the aquaculture centers, we see those as playing a part, because they are localized, so to speak, in different parts of the Nation. We would see the opportunity there for that particular resource center to provide the necessary technical information on the species that might be used in that particular part of the Nation.

For example, in the far Northwest, I think, it would deal primarily with trout and salmon because of the States of Washington and Idaho and that sort of thing.

The other use of the resource center, we think, would be the opportunity for that teacher to be in service. Someone is going to have to teach that teacher what he is going to teach in that class, and that regionalized center will be used for the purpose of providing that information to the teacher and also a source of information for that teacher to go back to when the problems develop.

Mr. CORY. For my part of the question, the question that was asked, I think that besides what is important to Iowa we have to consider what is important for the country. And if I could answer kind of a twofold answer system there, first of all, there are a lot of local people out there that can help, but they are probably working 9 to 5 or 8 to 4, whatever the time is. We can only get them part-time, and we can only use their resources to a certain level.

The other part is that at this point in time there is no curriculum. Everything I have been doing I have been writing and finding materials on my own. We have a lot of research from Iowa State University, which is one of the aquaculture centers.

The other centers in the United States are basically involved in research, and we have been working with Extension also. But we do not have any clear-cut curriculum at this time.

The other thing that deals with this that is important to Iowa is that we have over 80,000 farm ponds in Iowa. There is a tremendous amount of interest beginning right now with the production of fingerlings for stocking ponds, bait fish, marketing especially. There are some real areas of progress that can be developed there.

Pond education and management, disease. And also we must add in there, I think, on that list probably recreational management also of ponds.

The other part that is important for Iowa is we are right in the middle of a water quality battle, and if we can utilize aquaculture to develop and work with some better quality water and also to tie that in with a lot of our ground water as well as erosion and soil management, I think that they can work hand in hand.

So we are seeing in Iowa the demand is growing 5 to 10 percent a year, and with this growth in interest that is going in that area we think that there is a real area of growth within the next few years.

Senator HARKIN [presiding]. You are advocating five aquaculture program sites. Do you know where they would be located?

Mr. EUDY. No, sir; we have not decided anything on where those would be located. Our thinking was probably to relate maybe to the resource centers, the aquaculture resource centers.

Senator HARKIN. Mr. Cory, do you find that there has been much interest among young people in this?

Mr. CORY. A tremendous amount of interest. We have seen—I run approximately 45 percent girls in my agriculture science program, and I have been running over a 30-percent rate since 1975 when the program was started at North Polk.

Senator HARKIN. 19 when? 1985?

Mr. CORY. 1975 is when we started the program. We have been always over 30 percent.

This year we are at 45.

Senator HARKIN. Have any of those students ever gone into aquaculture?

Mr. Cory. We are just starting. I have three students right now, females, that are all managing the five aquariums. They take care of what type of a disease problem they have developed, they record water temperature, they record feeding information.

They also are now in the process of taking weekly weights on the tropical fish. And as I stated earlier, we are working with tropical fish because we can put those in a confined area.

So the interest that is there, we are seeing more and more people wanting to get into this. We have adults in our community that are now coming into my classroom during the day and helping work with the young people. But they are limited to their time that they can devote to it.

Senator Harkin. Thank you both very much. Thank you for being here from Iowa. I appreciate it very much.

The National Association for Biomedical Research, Ms. Barbara Rich, executive vice president.

Ms. Rich, welcome to the subcommittee. Your statement will be made part of the subcommittee files. You have 5 minutes, that is what I am told.

NATIONAL ASSOCIATION FOR BIOMEDICAL RESEARCH

STATEMENT OF BARBARA A. RICH, EXECUTIVE VICE PRESIDENT

Ms. Rich. Thank you very much, Senator Harkin. I will just summarize briefly.

My Association is focused on a single issue and that is the responsible and humane use of laboratory animals in biomedical research and product safety testing.

Senator Burdick has joined us.

I have a little over 300 institutional members. They include universities, medical schools, veterinary schools, academic societies, professional societies, voluntary health organizations, and industry, either pharmaceutical industry or other research-related companies.

As Senator Burdick well knows, for the last 8 years when the administration has proposed to eliminate or reduce Animal Welfare Act enforcement programs, NABR has appeared before this subcommittee and protested strongly. We are grateful that, with the subcommittee's report, the USDA's Animal Welfare Program has been preserved.

This year we are extremely pleased that the Department has renewed its commitment to animal welfare and requested an increase of $1.4 million to maintain adequate inspections and implement new regulations required under the 1985 amendments to the act.

We believe that a further step has been taken in the reorganization of that agency and the dedication of a separate staff and a new division to actually perform animal welfare inspections.

All of these changes are very encouraging. The research facilities and my association applauds the Department and APHIS for taking action.

However, we believe that much more could be done and that additional funding is required. I know other witnesses before the subcommittee have given you details, and I would like to summarize just very quickly, but animal welfare is a serious subject.

It has received sustained public attention. As Senator Harkin knows, the biomedical research enterprise in this country needs a good Federal inspection program in order to maintain public confidence in research.

For some time, APHIS has been under intense scrutiny, not only from the public and Members of Congress, but also from research facilities. The spotlight is on us and on APHIS to do a good job, and that spotlight is not likely to go off in the short term.

If we expect full accountability, I think we have to provide the adequate financing that will allow us to achieve it. Along with many other research organizations and animal protection groups, NABR recommends a fiscal year 1990 appropriation of $10 million for the APHIS Animal Welfare Program.

By our calculation, this funding level will permit a staff of 100 inspectors and the support needed to perform their duties, that is to inspect more than 8,000 sites across the country where research and other animal-related activities are conducted.

If we invest less in animal welfare enforcement, we invite failure for a program that, at least today, is on the road to success.

I thank you very much for the opportunity to testify and would be very happy to respond to questions should you have them.

Senator BURDICK [presiding]. Thank you very much.

Ms. RICH. Very good to see you, Senator.

Senator BURDICK. How many inspections should each research site undergo annually in your view?

Ms. RICH. I do not know how many is the ideal number. In the past, for 1987, the last year that we have complete statistics, APHIS performed between 13,000 and 14,000 inspections.

In addition to about 1,300 research facilities, there are exhibitors, dealers, and others that require inspection. At the absolute minimum, Senator, the law requires research facilities to be inspected at least once a year, and followups, of course, have to be inspected—or have to be performed if that is necessary, just to maintain what they are doing now, a minimum of twice a year.

Senator BURDICK. Senator Harkin.

Senator HARKIN. I do not have any questions. Thank you. I am well aware of the problem.

Ms. RICH. Thank you very much.

Senator BURDICK. Dr. Deon Stuthman.

Senator HARKIN. From Stratford, OH, Mr. Chairman.

AMERICAN OAT ASSOCIATION

STATEMENT OF DR. DEON D. STUTHMAN

Dr. STUTHMAN. Thank you, Senator Burdick and Senator Harkin.

My name is Deon Stuthman and I am a member of the research committee of the American Oat Association. I also happen to be a faculty member at the University of Minnesota in the College of Agriculture as well.

I appreciate the opportunity to present this statement for the American Oat Association, an organization of oat producers, handlers, and users. The primary purpose of our organization is to promote the production of high quality oats in the United States for use as feed for livestock and food for humans.

Oats for human food has received considerable acknowledgment by nutritionists recently, particularly for its favorable effect on blood serum cholesterol. However, it is unfortunate that the United States has had to import increasing amounts of oats to meet the increasing demand which food processors have generated because of this enhanced interest.

Just a quick example of this enhanced interest. Last night as I was watching a little bit of TV, I noted a commercial which indicated that English muffins which contain oat bran will now be available. Everybody is trying to get oat bran in their products.

The American Oat Association believes that there are two ways to increase U.S. oat production. One is to remove or at least reduce the disincentives for the production of oats in this country; and the second is to increase the productivity and/or the value of the crop through increased research.

Today I will direct my comments toward the latter, as we have already submitted several legislative recommendations regarding the disincentives to other congressional committees.

In a recent poll of our membership, which is comprised largely of producers, two-thirds of them voted in favor of additional oat research even if it meant less for other agricultural programs. Thus it is clear that producers are definitely interested in growing oats if given less unfavorable economics for their production.

The American Oat Association is appreciative of the well-managed program in the U.S. Department of Agriculture, Agricultural Research Service, for maintaining germplasm and providing basic research on crop plants, including oats.

However, there are two critical areas which are not included in their fiscal year 1990 budget recommendations, and I am appearing before you today to ask your consideration of these two research proposals made by members of our association.

The first one is to provide additional funding for oat germplasm enhancement at the USDA small grains research facility at Aberdeen, ID, in the amount of $200,000 per year. This program is essential to bringing the items in the current world oat collection closer to successful commercial production.

This enhancement will make that collection more useful to plant breeders in their varietal development efforts, including those on fiber, and those plant breeders will in turn develop new varieties and make them available to growers, and that should ultimately result in increased oat production in the United States.

The second request is that of providing an additional USDA ARS scientist who would be housed in the Department of Cereal Science and Food Technology at North Dakota State University at Fargo, for the advanced study of fiber improvement in oats, again at a cost of $200,000 per year.

Although this is proposed to be housed at Fargo, the person in this position would be expected to interact with oat researchers in all important oat-producing States. Currently little is known about variation in beta-glucan. That is the particular chemical that people are interested in as far as the fiber is concerned, those levels in oats, for either human or animal consumption.

It is this component which we believe is affecting the cholesterol levels in humans, and I have provided additional details regarding these two requests earlier submitted to the committee.

Finally, our research committee of the American Oat Association also joins other plant improvement groups in support of the funding requested by the USDA ARS for expanding the national seed laboratory at Fort Collins, CO.

Thank you and I would be happy to answer any questions that you might have.

Senator **BURDICK**. Where is your office?

Dr. **STUTHMAN**. My office is on the Saint Paul campus of the University of Minnesota.

Senator **BURDICK**. That is the farm campus?

Dr. **STUTHMAN**. Yes; that is how some people refer to it. I think they did when you were there, at any rate.

Senator **BURDICK**. That is correct.

Is your $200,000 request for the Aberdeen facility a one-time request?

Dr. **STUTHMAN**. No; that would be a recurring request. It is a program request.

Senator **BURDICK**. What is the cost of the equipment you expect to purchase?

Dr. **STUTHMAN**. We would actually expect to purchase very little equipment for that particular program. Much of that effort, in fact, will be conducted either at Aberdeen or at public institutions in oat-producing States. In fact, in most cases the equipment needed is already available at those institutions.

In fact, I am not sure we are really going to need much of any new equipment. The equipment part of that proposal, at any rate, would be very minor.

Senator **BURDICK**. By establishing a permanent position for an oat fiber scientist at NDSU in Fargo, do you anticipate development of more nutritionally valuable oat-based products?

Dr. **STUTHMAN**. Yes; actually, what that does is to provide us with a second approach in terms of modifying the fiber content of oats.

As a breeder-geneticist, I would look to modifying the genetics. But it is possible that that may prove to be unfeasible, and another approach would be to look at it from the milling aspect and take the oat kernel as it is now and either concentrate or remove the bran, depending upon whether you wanted a higher or lower fiber content as far as the oat product is concerned.

And so we might be able to, with the milling process, effect the same kind of modification of an oat product that some of the rest of us did try to do genetically.

Senator **BURDICK**. Well, with you established in Minneapolis, the University of Minnesota, and with fiber scientists at Fargo, ND, how can you lose?

Dr. **STUTHMAN**. Especially the oat breeder at North Dakota State University also happens to be one of my graduate students, so we have got pretty good linkage there.

Senator **BURDICK**. Senator.

Senator **HARKIN**. Sounds like a heck of a deal to me.

Dr. **STUTHMAN**. We will not leave Iowa State University out of it.

Senator **Harkin**. Are you from Iowa?

Dr. **Stuthman**. No.

Senator **Harkin**. Well, how come it says American Oat Association, Stratford, IA?

Dr. **Stuthman**. That is where the headquarters of the organization are.

Senator **Harkin**. Are you representing them?

Dr. **Stuthman**. I am representing them and I am also a member of the organization and also a member of the board of directors of the American Oat Association, while I am a faculty member at the University of Minnesota.

Senator **Harkin**. Do you farm?

Dr. **Stuthman**. No; I am a plant breeder.

Senator **Harkin**. Are you on retainer by the American Oat Association?

Dr. **Stuthman**. No; I am not on retainer.

Senator **Harkin**. You are just a board member?

Dr. **Stuthman**. Board member.

Senator **Harkin**. Who is the president of the American Oat Association?

Dr. **Stuthman**. The president of the American Oat Association is Jim Mills from—it is very close to Stratford. I cannot remember the exact——

Senator **Harkin**. He is from Iowa?

Dr. **Stuthman**. Yes; the president is also from Iowa, that is correct.

Senator **Burdick**. This is old home week.

Senator **Harkin**. Yes; OK. Thank you very much.

Senator **Burdick**. Thank you.

Dr. **Stuthman**. Thank you.

Senator **Burdick**. Our next witness is Mr. Jeffrey Nedelman, vice president, public affairs, Grocery Manufacturers of America.

Grocery Manufacturers of America, Inc.

STATEMENT OF JEFFREY NEDELMAN, VICE PRESIDENT FOR PUBLIC AFFAIRS

Mr. **Nedelman**. Thank you, Mr. Chairman. I have a very brief statement to summarize a couple of points made in my prepared testimony.

Today the food industry—producers, manufacturers, and retailers—face the most serious crisis in consumer confidence over the safety of our food supply that anyone can remember, whether it is concern about fungicides or insecticides used on raw agricultural commodities, wheat that might end up in pasta, or aflotoxin residues in corn or peanuts, or Alar residues in apples, or ethyl alcohol residues in vanilla ice cream.

The public is concerned about recent press reports that would seem to indicate that the Federal Government is not doing all that it should in assuring the public that our food supply is indeed safe, as we know in industry it is.

At the same time the public concern over the safety of the food supply is reaching record proportions, FDA's budget has been sharply reduced from fiscal year 1981 to 1989, by some 16 percent.

Therefore, we respectfully recommend that the committee draft report language increasing the budget of the Center for Food Safety and Applied Nutrition in FDA within the context of FDA's overall budgets. We know at a time when Congress is struggling with budget deficits that request for additional funds are hard to come by, and, therefore, what we are suggesting to the committee is that it look within FDA's overall budget and set some priorities for increasing the amount of testing and consumer work that is done within FDA about the safety of the American food supply.

Thank you, Mr. Chairman.

Senator **Burdick**. Mr. Nedelman, of the $100 million assumed by the administration in user fees, apparently $10 million are proposed for food programs. What is GMA's position on the user-fee proposal?

Mr. **Nedelman**. We are opposed to the user-fee proposal, Mr. Chairman.

Senator **Burdick**. Why?

Mr. **Nedelman**. We believe it would be difficult to assess a fair way within the manufactured food industry for user fees. Some suggestions have been made that it be done on a fee basis for plant inspections. Some have indicated that fees might be increased on costs of applying for either food additive petitions or new uses for old additives.

Currently FDA does about 14,000 tests of the national food supply system per year. That is virtually the amount of testing that the State of California or the State of Florida does on fruits and vegetables alone.

We think that there is room within FDA's overall budget for a resetting of priorities that speak directly to the consumer concerns about the safety of the food supply, mainly from agricultural use chemicals.

Senator **Burdick**. What is GMA's recommendation for FDA's Center for Food Safety and Applied Nutrition? How would you apportion these funds among food safety, inspection, biotechnology, surveillance, and other activities?

Mr. **Nedelman**. Mr. Chairman, as you know, the FDA budget overall has grown, particularly in the area of AIDS research and biotechnology. If you take that growth in recent years out, everything else has been cut.

What we would suggest to the committee—and we would certainly be glad to work with you and your fine staff—to try, over the course of the next several years, to restore some of the stability in level of effort to FDA's food programs that have been cut over the last 8 years.

We do not have a specific dollar figure that we would recommend to you. We believe that that is best left to your judgment. However, we would like to work with you on a multiyear program.

This is the first time that GMA has been before this subcommittee to ask for increased funds for FDA, and I think it underscores the seriousness of the problem that we in the food industry face today.

Senator **Burdick**. In other words, you want us to find the cuts. You have no recommendations?

Mr. **Nedelman.** We do not have a specific recommendation. And again, we are not asking that the 232 new slots or the almost $14 million that FDA recommended this year be restored automatically. We think there is a way gradually to get there and to help the American public know that the Federal Government is doing the job that it needs to do.

Senator **Burdick.** Thank you.

Dr. **Stuthman.** Thank you, sir.

Senator **Burdick.** The next witness is the Honorable Howell Heflin, Senator from Alabama. Welcome.

CONGRESSIONAL WITNESS

STATEMENT OF HON. HOWELL HEFLIN, U.S. SENATOR FROM ALABAMA

Senator **Heflin.** Thank you, Mr. Chairman.

Last year in the drought assistance bill we were able to put an amendment dealing with water management, giving the Secretary of Agriculture broad powers to deal with particular problems that could arise pertaining to the lack of water or water management and other aspects of water problems that might arise.

You and your committee were agreeable to an amendment on the floor pertaining to an amendment which gave to Auburn University a grant of $300,000 for a water management research study. And this grant was addressed under the special research grants of the Cooperative State Research Service.

And this year we would like to increase that to $500,000 for the fiscal year 1990.

We feel in particular that in regards to water management, in particular in regards to it in the South, that there are a number of problems that are confronting us. No. 1, the greenhouse effect is going to continue, and if we have droughts it seems that we seem to be in the peculiar situation in my State relative to the jetstream and the issue of water that that is going to be a big issue, and then there are many other related issues, one being, of course, the issue that arises on ground water.

Last year in the Agriculture Committee there was a big discussion and debate on the issue of ground water provisions in the FIFRA bill. In the final bill that was passed this was omitted, and we anticipate that there will be legislation this year directed toward that.

We feel a lot of research will have to be undertaken relative to these matters. It is not a large request that we are making. I have got some prepared testimony which I would like to have placed in the subcommittee file.

But there are so many different aspects of it. Today in the Senate Agriculture Committee, Senator Tom Harkin addressed a major water problem in the State of Iowa, and Senator Bond indicated that the northern part of Missouri was faced with the same situation.

This was addressed to Secretary Clayton Yeutter, the Secretary of Agriculture, and it was largely there just was not enough drinking water that was available for rural users of water in Iowa and in certain sections of Missouri.

So water is becoming, in States that have not historically been arid States, a major problem. And we feel like that research should continue in regards to this, and, therefore, we respectfully request that the bill this year that comes out of your Committee on Appropriations pertaining to agriculture contain this provision increasing the amount under the special research grants of the Cooperative State Research Service to Auburn University, to continue the study, and they are doing a remarkably good job.

Senator BURDICK. What is the price tag?

Senator HEFLIN. $500,000 is what we are requesting this year as to the amount. That is small compared to—you see, we do not even get into millions. We get into the thousands. We are keeping it low in regards to that.

But I think it is adequate to do what they should be doing and what we want them to do.

Senator BURDICK. Who was it that said—President Johnson said that a million here and a million there and pretty soon you are talking about real money.

Senator HEFLIN. He did not mention thousands, though. [Laughter.]

Senator BURDICK. Thank you.

Senator HEFLIN. Thank you.

[Pause.]

Senator BURDICK. Mr. Thomas Schatz, vice president, Citizens Against Government Waste. Welcome to the committee.

CITIZENS AGAINST GOVERNMENT WASTE

STATEMENT OF THOMAS A. SCHATZ, VICE PRESIDENT

Mr. SCHATZ. Thank you, Mr. Chairman.

It is a little difficult to follow a Senator with such a small, a seemingly small request. I appreciate your hearing me this afternoon.

Mr. Chairman, I appreciate this opportunity to discuss the Rural Electrification Administration. I represent Citizens Against Government Waste, the follow-on organization to the President's Private Sector Survey on Cost Control, which is better known as the Grace Commission.

CAGW is a bipartisan foundation. We are educating Americans about the findings of the Grace Commission and other cost-cutting efforts. We have one-quarter of a million members and represent millions more who are dedicated to reducing the budget deficit and fighting waste in the Federal Government.

We urge you to consider reducing spending for the REA. As you know, REA was originally established in 1935 to provide Government loans to eligible borrowers to serve and extend electric service to rural areas. In 1949 that service was extended to loans for telephones as well.

In 1989, 99 percent of farmers have electricity, 98 percent have telephones. We feel that the REA's mission has been accomplished at this time.

Since 1973, $18 billion of taxpayer money has been appropriated to this program, with a near 99-percent success rate. The percentage of farmers with electricity—the increase in the number of farmers who needed electricity increased by only 0.3 percent. In other words, for the past 16 years just about everyone has already had it and we are still spending money to subsidize the program.

Congress has really lost sight of REA's original purpose, to bring electricity and telephone service to rural America. A billion dollars a year goes to loans to rural cooperatives that include financially sound utilities in urban and suburban communities, as well as exclusive resorts like Vail, CO, and Hilton Head, SC.

We think this is an outrageous amount of congressional spending. These are taxpayer-subsidized interest rates of 2 percent and 5 percent, and they have really created booming industries. The combined assets of electric distribution borrowers exceed $20 billion. We think that is real money.

We are asking you to implement reforms in the REA so these types of inequities to American taxpayers will end. We are not asking you to abolish REA, privatize REA, or cause financial hardship to American family farmers. REA loans should go to the people who need them the most. We should identify these people and target the benefits to them.

The Grace Commission recommendations are similar to those introduced by Congressman Jim Bates in H.R. 1232, the Rural Electrification Administration Lending Assistance Improvements Act. The bill calls for replacing high-subsidy direct loans with loan guarantees, which should be made through the private sector.

The Federal deficit would be reduced by $5 billion over the next 5 years, with little impact on the consumers, and the loan guarantees will only assist legitimate rural borrowers.

In 1973 amendments were made to the Rural Electrification Act and Congress included language to the effect that borrowers should be encouraged to assist and satisfy their credit needs from their own financial organizations and private sources at reasonable rates and terms. Subsidizing financially sound cooperative borrowers at 2 percent and 5 percent interest rates is not reasonable when current market rates are between 10 and 12 percent.

According to the Congressional Budget Office, moving interest rates to market levels would have little effect on most cooperatives' rates, as interest charges account for only a small percent of the average ratepayer's bill.

If this plan were implemented in H.R. 1232, the average consumer's bill would go up by only 74 cents per month, and that comes from the REA and the administration in the Office of Management and Budget.

Jack Van Mark, who is Acting Administrator of the REA, noted in a March 21 hearing over in the House Appropriations Subcommittee that the average income of farmers has increased nearly six times in the past 40 years, while the cost of electricity has only doubled.

We feel that the time has come to recognize REA's success in bringing electricity and telephone service to rural America.

Citizens Against Government Waste, the administration, and the American people urge you to reduce funding for this program. By reducing funding, increasing interest rates, and targeting benefits to the needy, REA can continue to serve rural America and help reduce the Nation's Federal deficit by over $1 billion a year.

Wasteful Government spending is a little difficult to tolerate when our debt is going to reach $3 trillion in 1990, and we think that for the sake of our children and grandchildren changes should be made, and reducing funding for the REA and reducing the rate of the subsidy should be one of them.

Thank you, Mr. Chairman. I would be glad to answer any questions.

Senator **BURDICK**. Thank you very much.

Mr. **SCHATZ**. Thank you, sir.

Senator **BURDICK**. All right, our next witness is Mr. William Hytche, Dr. Hytche, chairman, Council of the 1890 Presidents and Chancellors. Proceed.

COUNCIL OF 1890 PRESIDENTS AND CHANCELLORS

STATEMENT OF DR. WILLIAM P. HYTCHE, PRESIDENT, UNIVERSITY OF MARYLAND EASTERN SHORE, AND CHAIR

Dr. **HYTCHE**. Thank you very much, Mr. Chairman, other members of the Senate Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies.

I want to express my appreciation for this opportunity to testify before you today. I am in somewhat of an enviable position in view of the fact that all of my colleagues would love this opportunity.

You have a detailed testimony, so I just want to abbreviate some of the points during this short period that I have been allotted.

Let me begin by saying that we are extremely grateful for the increases in the budget over the last year. In fact, if we consider the research extension, extension facilities, and the higher education capacity-building grants, this set of institutions will experience a little more than a 20-percent increase in funding, and we are indeed grateful and hope that you will support this budget.

In the short period that I have, I want to try to impress upon you why this is so important. For example, the 1890 Land Grant Institutions are perhaps needed now more than ever before in the history of this country, and let me use as an example the 1890 capacity-building grants.

This new initiative serves as the crux of a high priority toward advancing the capacity of the 1890's to meet their research and education responsibilities. The development of specialized initiatives in high-demand disciplines, complemented by graduate programs, is of national significance, given the underrepresentation of blacks in the agricultural sciences.

In 1984, for example, black Americans constituted only 44 of the 2,062 master degree recipients in agricultural sciences and 11 of over 800 doctoral degree awardees.

This support may be used to establish centers of excellence for increasing the participation of minorities in agriculture, national minority merit scholars program in the food and agricultural sciences, regional mentors programs for developing minority youth, and regional centers for developing minority agribusiness managers.

All of these initiatives emphasize further the importance of the 1890's in building a more competitive agricultural economy while broadening opportunities for these institutions to become monuments to the legacy of the land grant movement.

Today, Mr. Chairman, we feel that the rich legacy of the land grant tradition remains prominent in the campuses of these 17 institutions, established with the second Morrill Act of 1862 and 1890.

These institutions constitute some of the largest and most prestigious systems of higher education in the Nation. The most striking testimonial to the value of these institutions is their immeasurable contribution to agricultural sciences and technology, human ecology, and serving and harnessing the energies of economically and socially neglected communities.

Despite the crippling effect of marginal State and Federal dollars, through basic and applied research, complemented by extensive public service programs, the 1890's, the historical black land grant institutions, serve as social satellites, providing technical agricultural expertise, serving as partners in economic development, organizing networks of self-help community groups, developing cooperative projects with private enterprise, and responding to the compelling agricultural needs of developing countries.

The black land grant colleges and universities have studied ways to boost the productivity of grain legumes--peanuts, soybeans, pigeon peas, and dry beans—to help alleviate poverty in developing countries, along with a very high percentage of other very important pieces of research.

The National Association for State Universities and Land Grant Colleges recommended strongly that this budget be supported. In addition to that, the then Secretary Lyng, in cooperation with Deputy Secretary Meyers, appointed a USDA 1890 task force, where they went to each of these campuses and saw firsthand the needs. Thus they too recommended strongly that these projects be supported.

There are certain national priorities that are driven largely by new advancement in opportunities for enhancing the environment and the quality of life in both urban and rural communities. And I might add that these institutions reach into these areas.

It is widely recognized that the United States is losing its competitive advantage in domestic and international markets. We recognize, too, that higher education must be deeply involved in producing new talent and expertise. Yet our failure to capitalize on existing resources of these 1890 and historically black colleges and universities shows a dangerous lack of vision and foresight that will hold unfortunate consequences for the entire Nation.

The Nation must come to grips with the economic realities of the world marketplace. A new national initiative for black colleges, intimately woven into an economic agenda, is needed to stimulate both the full development of these institutions and the production of a new generation of agricultural scientists, technologists, and other scholars.

The economic state of black land grant colleges, the declining participation of black men in higher education, and the disproportionate underrepresentation of blacks in physical, chemical, and biological sciences demands a bold and sustained legislative policy response.

For example, in 1984–85 only 3.4 percent of doctoral degree recipients in the Nation were black; 74.1 percent were white Americans.

And as the report "One-Third of a Nation" notes, of the 355 doctorates awarded in computer science in 1986, only 1 was awarded to a black. That same year, as stated previously, in agricultural sciences blacks received only 44 of more than 2,000 master's degrees and only 11 of 820 doctorates.

We feel that the kind of budget that is being supported, is being asked for your support in here, would be enhanced tremendously to help eliminate some of these.

Mr. Chairman, I have gone into much more details in the report that you have before you. I think that perhaps I should just stop and try to answer any questions that you may have regarding it.

Senator BURDICK. I thank you very much.

There is a vote on on the Senate floor right now. We will have to recess for about 15 minutes.

[A brief recess was taken.]

Senator BUMPERS [presiding]. The subcommittee will come to order.

I know that, unless Senator Exon is lost out in the hallway, he is here, because I just walked down the hall with him. He told me he wanted to testify on a meritorious project in the great State of Nebraska.

Senator Exon, welcome to the committee. We are very anxious to hear your testimony. Please feel free to give your testimony in full or summarize.

CONGRESSIONAL WITNESS

STATEMENT OF HON. JAMES J. EXON, U.S. SENATOR FROM NEBRASKA

Senator EXON. Mr. Chairman, I appreciate it very much. I have prepared some remarks. I will try and keep it as brief as possible.

I once again want to congratulate and thank the other members of this committee who take the time to listen to these kinds of things that are tremendously important. And I will try and be as brief as I possibly can.

I appreciate the opportunity to come before you today to talk about the agricultural appropriations. I realize that your task is not an easy one and there are items on everyone's wish list that have come up in front of your committee, and I know that you have a tough time accommodating all of them, given our current budget situation.

I understand that fact, and the good news is that, right or wrong, just as we started the last vote we did report out of the Budget Committee the budget resolution, which will be debated on the floor in the near future.

I believe that most Nebraskans realize and understand the situation that confronts all of us here very well. But these items today that I am going to talk about are particularly important to Nebraskans, and I am here today to help assure that Nebraskans' priorities are accorded the attentions that they deserve.

First, the Nebraska Center for Advanced Technology. I would like to begin by calling to your attention a proposal that I put forward on behalf of the University of Nebraska to establish the Nebraska Center for Advanced Technology. The university envisions an advanced research facility to conduct innovative research and technology assessment in the areas of biotechnology, computer science, and materials science.

The center will be integrated for targeted research, with technology transfer for commercial application.

There are many other important matters that I want to touch on briefly here today.

There is a Cooperative State Research Service. Within the Cooperative State Research Service, special grants accounted for in these areas are especially important for Nebraska, key items in these areas.

Last year Congress made available $100,000 for Sand Hills Grazing, management research, and $40,000 for research on corn starch plastics. I continue to support this and I hope that this committee, who has been very understanding of this, in the future will do likewise.

Also, although it is a very small investment of about $68,000 that this committee was able to give us last year, we are making remarkable progress in a milkweed research program that is beginning to show great promise, not only from the standpoint of providing a new crop, a new cash crop for agriculture, but also springing from this is some industry that use this, the milkweed product, in the manufacturing process.

Also, there are provided in here some assistance for some of the agricultural sectors of our economy that are critically important at a time when, as you know better than most, Mr. Chairman, the particularly difficult times we are having these days in rural America.

The other matters that I have touched on in my remarks are all extremely important, including a rural development and revitalization initiative that had also been developed within Nebraska's Extension Service, which is a key program in our State.

This initiative would focus on four general areas: one, community planning; two, leadership training; three, waste management; and four, risk management. The sum of $250,000 would be needed to put this plan in operation.

As for the Agricultural Research Service, Nebraska is a world leader in livestock production and it is entirely fitting that one of the Agricultural Research Service's major facilities, the Animal Meat Research Center, is located in Clay Center, NE.

The center has proposed expanded work in the area of animal health and food safety. Fortunately, the administration's budget reflects this priority, providing a $1.1 million increase for fiscal year 1990. I support that request.

Finally, a matter that could not have gone forward were it not for the understanding of this subcommittee and your committee as a whole, Mr. Chairman. Once again I want to call your attention to a joint university-industry effort to bring the Stirling engine technology to the world marketplace.

I have worked with you and others on this committee and you know—I know that you are familiar with the background of the potential for this entrepreneurial enterprise that is requesting some minor assistance from the Government. A joint proposal has been submitted by the Universities of Nebraska, North Dakota, and Mississippi which calls for $1.5 million per year for 5 years.

These funds would go to these universities and Valmont Industries, which would supply the prototype engines. I am convinced that Stirling engine technology holds promise as a means of meeting agricultural energy needs, and ask that you look into this thoroughly and hope that you will give it a favorable request.

Mr. Chairman, in conclusion just let me say that I appreciate the opportunity to come before you today to discuss these items. I look forward to working with you and the other members of the subcommittee and the committee in the weeks to come as we develop the 1990 agricultural appropriations bill which will accommodate as many of these requests as you possibly can.

Mr. Chairman, I thank you for your time and consideration.

Senator **Bumpers**. Thank you, Senator Exon. Those are all interesting projects as you have discussed them. We certainly will consider every one of them.

Our budget constraints, as you know, are great. The fact that the State of Nebraska is willing to put up so much money for that research center while asking for $8 million in Federal funds is encouraging. According to your testimony, the State will eventually put up over $60 million of the $90 million project.

That is a monumental effort you are making in Nebraska, and I hope we can participate in that.

Senator **Exon**. Thank you, Mr. Chairman, for singling that out. I think we have not come with our hand out in this thing without recognizing that a major portion of the funding is going to have to come from right out there.

When you talk about the rural States today, you as a former Governor of Arkansas and myself as a former Governor of Nebraska, these are the States by and large that have been the poor second cousins to an awful lot of the research money that we put out over the years.

So we are saying—we are not asking the Federal Government to do all to make up some of the oversights that I think have taken place in the past. We are simply saying that we are trying to pull ourselves up by our bootstraps by making investments of our money.

And I thought it was interesting that that was at least one of the projects that you picked out for comment on. I thank you.

Senator **Bumpers**. Thank you, Senator Exon.

Our next witness is Dr. John Gardner, Carrington Research and Extension Center, North Dakota. Please proceed, Dr. Gardner.

NORTH DAKOTA STATE UNIVERSITY

STATEMENT OF DR. JOHN C. GARDNER, SUPERINTENDENT AND AGRONOMIST, CARRINGTON RESEARCH AND EXTENSION CENTER

Dr. **Gardner**. Thank you, Mr. Chairman.

I am a crop scientist with North Dakota State University, located at a branch experiment station in the central part of North Dakota. And we at the Carrington Research and Extension Center in the center part of North Dakota have been leading the research effort on low-input sustainable agriculture, which the Congress gave the acronym LISA, by which I will refer to it.

We have been spearheading that effort for North Dakota State University in the center part of the State, even though the whole university is involved.

I come to Washington today for just one specific reason, to let you know as a researcher in this project what is going on out there in the research community and report to you what is going on in the farm and rural community. I think that low-input sustainable agriculture is definitely a hot topic, not only in rural America, but it is a hot topic in urban America as well.

I mean, we cannot go through a day that we do not hear of some debate. We have come into an era where we have been enjoying the benefits, but now we are starting to realize some of the costs.

The benefits we have realized have come at great costs, and agriculture is no different. We are starting to see some of those costs, like soil erosion. Where fertilizer has been misapplied or management has been poor, we have got ground water trouble, and now we have to spend money on symptoms.

So what I have come today to talk to you about is to explain a little bit about LISA, or at least the LISA that I know. The farm press and the urban press is full of stories about LISA, and I think it is kind of unfortunate that the extremists on both sides get most of the limelight, and I mean on both sides.

We have got extreme environmentalists that see LISA as a platform to raise their own ideas and to prove themselves right, that they have been saying for years, and I think that that is unfortunate.

I think it is also unfortunate that industry, some agri-industries, not all agri-industries, are also painting LISA, in rural America anyway, as a disaster and as a slap in the face, and that Congress does not understand agriculture.

I happen to think that LISA was one of the most courageous acts really of government for public research in agriculture that has occurred in a long time. But it is unfortunate that these two extremes get most of the press.

The LISA that I know—and I do happen to be on the North Central Region Review Committee for the proposals, so I am actively involved somewhat in selection of some of the projects that will be funded in the North Central region. These are not the LISA projects that I see turned in and these are not the LISA projects that are funded.

I see—we see all sorts of proposals in the North Central region right now. We have got to meet in 2 weeks and discuss 127 proposals from 12 States, the 12 States that encompass the Corn Belt and the Central and Northern Great Plains.

This is a tremendous agriculture area. From North Dakota alone, from North Dakota alone there are six proposals this year requesting over $1 million. The total funding that Congress has given this project in the last 2 years—well, the first was $3.9 million and the last year was $4.5 million.

So there is a tremendous amount of interest in low-input sustainable agriculture. And in North Dakota, I might add, who are the people that are turning in these proposals? It is just not North

Dakota State University. We have got over 25 farmers actively involved in participation. We have got the North Dakota Ag Association, which is a coalition of agri-industries.

So I think these are proof that some of the things that have been in the press perhaps are not painting the right picture of what LISA is all about.

LISA has brought back common sense, and I think that was a thing that Congress saw in it and the reason they have supported it the way they have, you know, because sometimes science—me as a scientist, I am a crop scientist—we need a little realism ourselves, we need a little bit of—we need a little kick in the pants every once in a while, because we have to publish and we have to keep up with our peers, and sometimes common sense takes a back seat.

I think LISA has given some legitimacy to some research that has not been supported and will not be supported in any other way.

But the most important reason I came today is to make this one point: The public's awareness of this issue has skyrocketed. There is a lot of emotion out there, there are a lot of testimonials out there. If we do not keep a publicly funded research project going in this area and if we do not strengthen it, but if instead we back off from it, it is going to be very serious, because the emotion and the testimonial and the nonresearch-based information is going to form a groundswell, and it is not going to be backed by actual data.

For us in science that is a big fear, it is a very big fear. I guess we like the objective programs and we like the things that are being funded by LISA and we think they are necessary.

Yes; USDA does fund some of these projects. Yes; USDA does have some programs that are working in these areas. But it is not administered, implemented, or reviewed like the LISA program is.

So those are the key comments I wanted to make. I think it is an important program, and I guess we are requesting $15 million for this project here in fiscal year 1990.

Senator BUMPERS. Is that your current level of funding?

Dr. GARDNER. The current level of funding is $4.5 million for the entire Nation, $4.5 million.

Senator BUMPERS. For the entire Nation?

Dr. GARDNER. Yes.

Senator BUMPERS. How much for LISA research only?

Dr. GARDNER. LISA is $4.5 million. That is divided into the four regions, so each region——

Senator BUMPERS. You are asking for $15 million, a 300-percent increase?

Dr. GARDNER. I guess the reason we say this is because we are concerned about two things: this emotionalism, that we have to fund the research projects that are out there that are going to answer the questions and give us the research, the objective and definitive results, instead of testimonial information.

Two, look at the amount of proposals that have been turned in. In the North Central region alone, as I mentioned, there are 127 proposals turned in. Probably five, six will be funded, and I am not saying that all of them are good, but one-half of them are good and very worthwhile.

Senator **Bumpers**. How much money is the U.S. Government spending on low-input technology? Do you have any idea? Are you familiar with ATTRA?

Dr. **Gardner**. Yes, I am.

Senator **Bumpers**. Do you coordinate any of your efforts with them?

Dr. **Gardner**. Some. There is other—I am not saying there are not other avenues. The importance that I see of LISA——

Senator **Bumpers**. Listen, I am on your team.

Dr. **Gardner**. OK.

Senator **Bumpers**. You do not have to be defensive with me. I believe in low-input technology.

Dr. **Gardner**. OK.

Senator **Bumpers**. And I think we probably ought to be spending a lot more money on it. I am just curious, though, as to whether or not there is a sufficient amount of coordination between the different universities and people like ATTRA who are doing this kind of research and extension work, whether they are really coordinating their efforts or not.

Dr. **Gardner**. ATTRA is not as active in the Great Plains region as it——

Senator **Bumpers**. It is not active in research at all in the Great Plains as far as I know.

Dr. **Gardner**. Yes; so I cannot speak for ATTRA, for instance.

Senator **Bumpers**. Is the USDA the only organization in the Great Plains that is doing low-input research?

Dr. **Gardner**. Publicly, with public dollars.

Senator **Bumpers**. So far as you know?

Dr. **Gardner**. With public dollars. Some States now have set aside funds, some of the energy overcharge funds in Iowa for instance, Minnesota. Those are two States for example that have used energy overcharge funds in their States.

Senator **Bumpers**. Well, there is not any question as to whether we are going to start phasing out a lot of fertilizer use and herbicides and pesticides. The question is how quickly can we do it without losing the yields necessary to feed ourselves.

Dr. **Gardner**. Precisely.

Senator **Bumpers**. And how quickly, you know, can we get it done and still have potable drinking water. So it is a real problem, and I am not suggesting that your 300-percent increase is out of line.

I am curious about who these results are being coordinated with and who is making sure that this money is really being well spent.

Dr. **Gardner**. Yes; I understand that, Mr. Chairman.

Senator **Bumpers**. I am sorry the chairman of the subcommittee is not here. I know that he would like very much to have heard your testimony. He is especially interested in this program. It is a North Dakota project and that State just happens to be near and dear to his heart.

But he asked me to extend his very best to you and apologize for not being able to be with us.

Dr. **Gardner**. Thank you.

Senator **Bumpers**. Thank you, Dr. Gardner.

Our next witness is Dr. John Ahlen of the Arkansas Science and Technology Authority, and he is here to speak on a subject near and dear to my heart.

Dr. Ahlen, Congressman Anthony is home in bed sick. He was going to be here to introduce you. Of course, he did not need to introduce you to me. But in any event, I know that he really is sorry that he cannot be here because he is ill.

But we are very pleased to have you and anxious to hear your testimony.

ARKANSAS SCIENCE AND TECHNOLOGY AUTHORITY

STATEMENT OF DR. JOHN W. AHLEN, PRESIDENT

Dr. **AHLEN**. Thank you, Senator.

I am happy to have the opportunity to visit with you this afternoon about continued support for our Food and Drug Administration project that would take place at the National Center for Toxicological Research in Jefferson, AR. This project would be a national demonstration project, which we have undertaken calling the National Biotechnology Cooperative, which is a well-thought-out proposal with six major points that deal with crosscutting issues of competitiveness as they relate to the biotech industry, which as you know, Senator, is a major emerging industry.

The six specific points deal with the availability of space, 400,000 square feet of space that was originally designed as part of the Pine Bluff Arsenal to deal with biological warfare products, but was demilitarized in the early seventies and was made part of the National Center for Toxicological Research.

We believe there are some very important uses for that idle space. It could be an environment in which cooperative product development could take place involving scientists from the Government laboratory there, from academic institutions, and from industry.

We think that it could be a place where the regulatory review process could be looked at and made more efficient, not scaled back but made more efficient. We think that there is room there for a partnership effort, again involving primarily the universities and industry, for the purpose of training technicians and scientists to work in the biotech industry, both in the private sector and in the public sector.

There is an important role to play in basic science education that could take place at a facility of this sort.

Last, there are issues of proprietary information and the protection of intellectual property that are a natural topic for resolution at such a facility.

The specific action, the specific support that we are looking for, involves two parts. The first part, in order to be fiscally responsible at a time when we are looking very hard at our national budget, is to establish the feasibility for this proposed project, specifically to look at the appropriate scale of the effort, the right mix of these efforts that I have discussed, these six efforts, and to take a look at the long-range cost-effectiveness of such an effort.

The cost of this feasibility study to the Federal Government, to the Food and Drug Administration specifically, would be $500,000, and that amount would be matched dollar for dollar in cash by the State of Arkansas. The second part——

Senator **Bumpers**. I am reluctant to interrupt you, but the feasibility study is only supposed to cost $500,000, is it not?

Dr. **Ahlen**. That would be the cost to the Food and Drug Administration.

Senator **Bumpers**. So it is a $1 million study?

Dr. **Ahlen**. It is a $1 million feasibility study.

Senator **Bumpers**. OK, I misunderstood that. Go ahead. And the State is going to put $500,000 in?

Dr. **Ahlen**. Yes, sir.

Senator **Bumpers**. OK, go ahead.

Dr. **Ahlen**. Assuming that the feasibility study shows that this is a worthwhile project, the other part, the second part, would be $2.5 million for the architectural and engineering design for the refurbishment of that space.

This project was originally authorized for the current fiscal year. There have been delays, and my purpose today is to urge the committee to continue to support this project in the fiscal year 1990 budget year.

That concludes my summary of the remarks that I have submitted, Mr. Chairman.

Senator **Bumpers**. Thank you, doctor. Your full formal statement will be maintained in the file.

As you know, an interesting thing happened on the way to developing this project, namely OMB got into the act.

Dr. **Ahlen**. Yes, sir, I understand.

Senator **Bumpers**. And they have probably spoiled more good things than any other agency in the government. We ought to give them an award of some kind for their obstreperousness.

I do not think there is any question but that we will get the feasibility study done and that it will be a very favorable report because we do have that magnificent facility down there. We are being outstripped by Japan in the biomedical and biotechnical fields.

It is obvious that, even though we have these tremendous laboratories, we have the Genentechs and the Upjohns and the Mercks and everybody else, it is obvious that we are still falling way behind.

It is also obvious that we have a lot of small biotech firms in this country who probably would like to do a lot more, but do not have the resources to do it. And that is what we are trying to redress.

Now, Dr. Young sat right where you sit not long ago and testified that he is as committed to this project as ever. And you know, last year we thought we had this thing on track and we were getting ready to have a big press conference, but we scrubbed it because OMB put a hold on the project at the last minute.

But we are going to be deadly serious about this project this year, and particularly when this committee marks up this bill. You know that I am committed to it and feel very strongly about it.

I hope that Dr. Young will maintain his steadfastness and his commitment to it, and with that I think we are going to get this project going.

But I thank you, Dr. Ahlen, for the work you have done for the Arkansas Science and Technology Authority, and we will continue to stay in close touch with you, and we thank you very much for coming up to be with us here today.

Dr. AHLEN. Thank you, Senator.

Senator BUMPERS. Our next witness is Ma-tritch'-ee-oo-nee, is that it?

NATIONAL UTILITY CONTRACTORS ASSOCIATION

STATEMENT OF JAY MATRICCIANI, PRESIDENT

ACCOMPANIED BY BRIAN CONNOR, DIRECTOR OF GOVERNMENT RELATIONS

Mr. MATRICCIANI. Ma'-tri-see-nee.

Senator BUMPERS. Ma'-tri-see-nee, president, and Mr. Brian Connor, director of government relations, for the National Utility Contractors Association. Welcome, gentlemen.

Mr. Matricciani, why do you not proceed.

Mr. MATRICCIANI. Good afternoon and thank you, Mr. Chairman.

My name is Jay Matricciani and I am the president of the National Utility Contractors Association. NUCA is comprised of 200 contractors, suppliers, and manufacturers nationwide that specialize in the construction of water supply and waste water treatment projects. Many of our water and sewer systems built by our members are financed through Farmers Home Administration water and waste disposal grant and loan programs.

Senator, in the interest of time I will proceed with my summary of my prepared statement.

Senator BUMPERS. Please do. Your statement will be kept in the subcommittee file.

Mr. MATRICCIANI. Thank you, sir.

Two Federal programs, the Farmers Home Water and Waste Disposal Program and the Environmental Protection Agency's Construction Grants Program, represent the Government's major source of funding for the Nation's low-income rural communities' water and sewage treatment construction needs. An analysis of the Bush administration's proposed fiscal year 1990 budget shows a $114 million cut for Farmers Home water and waste disposal and a $750 million cut for the EPA Construction Grants Program, for a total cut of $884 million.

Under the Bush-proposed budget, Farmers Home water and waste disposal programs would receive $75 million for grants and $250 million for loans, for a total of $325 million. However, these numbers do not even come close to meeting the demand for funding.

According to the Farmers Home Administration, as of March 6, 1989, there are 1,222 loan applications and preapplications pending, totaling $837 million. There were also 586 grant applications pending, totaling another $285 million.

The total demand, then, for these moneys is over $1.12 billion, leaving an unmet demand for funding at almost $800 million.

The smaller and poorer communities in rural areas of the Nation will find it increasingly difficult to satisfy tough Federal water and sewage standards with further cutbacks. While we understand the need to be realistic under the current budget restrictions, we feel that failure to adequately meet the demand for infrastructure programs such as these is shortsighted.

Over the past few years, water programs such as Farmers Home water and waste disposal and the EPA Construction Grants Program have borne more than their fair share of cuts. Funding for the Farmers Home Water and Waste Disposal Program must be viewed in budgetary terms not as a liability, but as a long-term asset, because it represents an investment in the future economic growth of the Nation's rural and underdeveloped areas.

Mr. Chairman, I conclude by imploring you to appropriate an adequate amount of funding in fiscal year 1990 for the Farmers Home water and waste disposal. A funding level of $440 million, equal to that of recent years, is certainly reasonable and responsible in light of the current need for construction financing and the benefits derived from it.

This program is important, it is effective, and above all it is working.

Thank you for granting me the opportunity to appear here today. My colleague Mr. Connor and I will be happy to answer any questions you may have, sir.

Senator BUMPERS. Mr. Matricciani, did you know that you are talking to the one Senator in the U.S. Senate who has been most committed to this for years? And when Ronald Reagan came to power and started trying to torpedo this program, I was able to keep it maintained at about a half-respectable level.

But it is another case of the indifference, indeed the cynicism, of both the Reagan and Bush administrations toward rural development in this country. There is not a dime spent by the Federal Government that has a greater cost-benefit ratio other than childhood immunizations, than these rural water and waste water treatment facilities grants and loans.

I did not realize when I agreed to chair this hearing this afternoon that you were going to be here and this was going to be a subject. Otherwise I would have gotten my own State's statistics up to date.

But I can tell you that demand in my State overwhelms, overwhelms our ability to meet it, and every one of the project requests are good applications. And as you know, the way they use the income level approach now, they keep cutting it and cutting it so that nobody can meet it.

That is an interesting thing, because I was just getting ready to call the Arkansas Farmers Home Administration office when the rollcall buzzer went off a while ago about a project in my home county that I feel strongly about. This project scores 95 out of a possible 125 points on the priority survey. But the income levels in this particular area sort of prohibit them getting a project.

It is all loan money. There is no grant money being asked for. It is all loan money.

Mr. MATRICCIANI. That is correct, sir.

Senator BUMPERS. But I tell you what. I will not live long enough to see it, but I wish I could live long enough, particularly in my home State, to see every rural home served by a water project and hopefully a waste water facility.

So I can assure you that I am going to do everything I can to get that figure up. We will be sitting right in this Committee room not too far off marking this bill up, and water and sewer loans and grants will be, next to that project you just heard a moment ago, the National Center for Toxicological Research, my highest priority.

I know the chairman of this subcommittee, Senator Burdick, shares my deep concern for this, because we talk about it every year when we markup this bill.

Every year the administration comes in here trying to torpedo that program. It makes me so mad I cannot breathe.

Mr. MATRICCIANI. One of the things I believe that is going to happen, sir, as we go on, in 1994 we run out of the EPA construction grants. Along with the demands being made by new water quality control acts, we are going to have an enforcement and these rural communities and all are just not going to have the moneys available to them to fund projects.

Senator BUMPERS. Yes; George Bush wanted to be an environmental President—$1.95 billion, now this year $1.2 billion in EPA.

Mr. MATRICCIANI. Yes, sir; and originally funded at $2.4 billion, sir.

Senator BUMPERS. Do you have any idea what the total requirements of this country would be to meet the tertiary requirements?

Mr. MATRICCIANI. Roughly sir?

Senator BUMPERS. Yes.

Mr. MATRICCIANI. $86 billion.

Senator BUMPERS. $86 billion?

Mr. MATRICCIANI. That is through EPA. Am I correct, Brian?

Mr. CONNOR. That is just secondary.

Mr. MATRICCIANI. That is secondary treatment standards, minimal as of 1987.

Senator BUMPERS. $86 billion?

Mr. MATRICCIANI. Yes, sir.

Senator BUMPERS. And the systems that we will build with this $1.2 billion will be long since gone and worn out before we can even get to the end of the need that is there right now.

Mr. MATRICCIANI. That is correct.

Senator BUMPERS. We ought to be putting $20 billion a year into this program.

Mr. MATRICCIANI. I second the motion, sir.

Senator BUMPERS. Well, I can tell you, you know, we talk about ground water pollution from herbicides and pesticides. I just got back from South America and all the sewage in South America, virtually all of it, is going right into their rivers untreated, right out into their rivers, right into the oceans where they fish and where we import fish from. They say they can't afford to build treatment facilities. This administration says we can't afford to build them for rural communities. I say we can't afford not to.

Mr. MATRICCIANI. Yes, sir; and one of the things in the United States with the weather that we have and the drought there the last few years, our water system is drying up and our rivers and streams may soon have to be a source of our drinking water.

So we have got a lot of things to think about for the future, sir.

Senator **Bumpers**. Well, Mr. Matricciani, as we say in Arkansas, you are preaching to the saved. We will do what we can for you.

Mr. **Matricciani**. We appreciate the time.

Senator **Bumpers**. Thank you.

Mr. **Matricciani**. Thank you, sir.

Senator **Bumpers**. Senator Conrad Burns. It says here "the Honorable Conrad Burns."

CONGRESSIONAL WITNESS

STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator **Burns**. Mostly Conrad today, sir.

Senator **Bumpers**. I see. Senator Burns, welcome. We are pleased to hear from you.

Senator **Burns**. Thank you very much, Mr. Chairman, and it is nice to be here.

This is an important subcommittee and I am happy to be here today to discuss funding for agriculture. Although the need is widespread in agriculture, I would like to focus on two items.

The first is the one-time $300,000 increase in funding for fiscal year 1990 for drought research at Fort Keogh Livestock and Range Research Laboratory located in Miles City, MT; and the second is $400,000 for fiscal year 1990, $200,000 a year thereafter for additional funding, for safflower research at the Montana-North Dakota Cooperative Research Program, and that is located at Sidney, MT.

The Northern Range Laboratory is located in the heart of what has been a persistent and devastating drought in the Northwest. My home State of Montana as well as the chairman's State of North Dakota has suffered immensely due to a multiyear drought which is occurring in the Northern Great Plains.

The research laboratory at Miles City has been providing essential research on effects of this drought upon range grasses. As you know, this is all known as short grass country. And the results of that research is immediately benefiting the ranchers in the State of North Dakota, as well as South Dakota, Wyoming, and of course my home State of Montana.

The additional funding for this laboratory is essential to help the agricultural community learn more about the prolonged effects of drought on range grasses, some types of which might have died out as a result of this drought. We must learn what the carrying capacity of our range is, because when I visited there just 1 month ago, less than 1 month ago, they felt like that we had lost a lot of our plants in this drought.

Current funding levels have been inadequate to the additional burdens of research requirements at Fort Keogh. Cost estimates compiled at the laboratory indicate that an additional $300,000 for fiscal year 1990 is required to continue this essential research at its most productive level.

In addition to drought research, I would like to urge additional funding for safflower research. Safflower research is important for Montana and North Dakota. Safflower is not a program crop and receives no direct Federal subsidies.

Safflower oil has become more important as a crop in our part of the country. The oil is naturally low in cholesterol at a time when most Americans are looking for ways to lower their total cholesterol intake.

In addition to developing a market in the United States, safflower is becoming increasingly important as an export item. This is a small cash crop with a strong future that deserves our attention and support.

One of the primary problems associated with the production is the byproduct, it has a bitter taste to cattle. More research needs to be done to improve the palatability of safflower byproduct as a feed component. Also they are making new strides in breeding new strains of safflower also to bring the protein level up.

The Sidney research station is working to improve the cattlefeed relationship, and more work needs to be done.

Mr. Chairman, the farmers of Montana, North Dakota, and of course the surrounding States that take part in this program would rather get their paychecks at the marketplace and not at the mailbox. Helping them to develop viable alternatives to program crops, such as safflower, is one way of ensuring the financial independence of our Northern Great Plains farmers.

I urge you, Mr. Chairman, and members of your committee, to include and support the proposed increased funding for both these worthy research efforts. The benefits will not only accrue to the farmers of Montana and North Dakota, but producers throughout the Northern Great Plains.

I thank you very much for letting me testify today.

Senator **Bumpers**. Senator Burns, how much safflower do you produce in Montana?

Senator **Burns**. Our acreage has gone up a little bit. I do not know what the acreage is. We had a little more last year because it is—it has a little drought resistance to it and will grow in the more arid acres. Its root system goes way down.

But right now, the way the farm program is written we cannot divert a lot of those acres, like those APR/CPR acres, to safflower. So the demand for the oil is there. They are wanting to do more research on the byproduct, the hulls.

Senator **Bumpers**. The cows will not eat it because it is bitter?

Senator **Burns**. It is bitter, it is bitter. And it has to be mixed. They have to mix some molasses with it, you know, and some additives take it off.

Senator **Bumpers**. Does it have a good protein content?

Senator **Burns**. It is low. And of course these new strains—they have got two new strains that brought the protein way up.

Senator **Bumpers**. It is low because the oil has been taken out of it?

Senator **Burns**. That is exactly right, that is exactly right.

Just to bring you up to date at Fort Keogh, of course, that serves a four-State area. We are very concerned out there that this is the first time in the history of that station where we think we have actually lost plants due to drought, prolonged drought.

They are doing a lot of in-field—of course, if you go there, there are not many people around because they are in the field, because they are starting to measure that. And we have got to determine some carrying capacity.

I do not think we are going to be able to run as much stock maybe for the next 2 years.

Senator **Bumpers**. Where is Fort Keogh?

Senator **Burns**. Miles City.

Senator **Bumpers**. Miles City?

Senator **Burns**. Yes.

Senator **Bumpers**. What part of Montana is that?

Senator **Burns**. Eastern Montana. It is about, oh, 100 miles from the North Dakota border and almost middleways—around the Yellowstone River, right down the river from—if you know where Billings is, it is 140 miles to Miles City.

Senator **Bumpers**. Where is it from Livingston?

Senator **Burns**. Add another 100, 100 miles east.

Senator **Bumpers**. It is 100 miles north of Livingston?

Senator **Burns**. No, east.

Senator **Bumpers**. East.

Senator **Burns**. East, on the same highway.

But we just do not know what the carrying capacity is going to be out there now. They have done some interesting work with GRI, which is some research people there, measuring gains on cattle different times of the year and different growths.

That information is just coming of light, and we have got some people that probably stayed on the range a little too long, as the research is showing now. That is a semi-arid country, as you well know.

Senator **Bumpers**. Are you still in a drought situation in Montana?

Senator **Burns**. We sure are. We have got mud this spring. We are ahead of last year. But we are not out of the woods by any means.

Senator **Bumpers**. What does your wheat crop look like?

Senator **Burns**. Wheat does not look too bad. Early growth—I said, we had a lot of early mud, had some good snow. It was a terrible calving. Any time you have a bad weather for calving, well, you have usually got a pretty fair start on your wheat.

Senator **Bumpers**. Cannot get it all right at the same time, can you?

Senator **Burns**. No; we never have. But you know, that is Montana and we do not ask for much.

But these two programs are awfully important to that four-State area of Wyoming and the Dakotas and Montana. So that is why I am here today.

Senator **Bumpers**. Senator Burns, thank you very much for coming over to be with us.

Senator **Burns**. Thank you very much. I appreciate the opportunity, Mr. Chairman.

SUBCOMMITTEE RECESS

Senator **Bumpers**. This concludes today's hearing. The subcommittee will meet on Thursday, April 20, in room SD-124 at 9:30 a.m. to continue to review testimony of public witnesses.

The subcommittee will stand in recess. Thank you.

[Whereupon, at 5:10 p.m., Wednesday, April 19, the subcommittee was recessed, to reconvene at 9:35 a.m., Thursday, April 20.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, APRIL 20, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:35 a.m. in room SD–124, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Kerrey, and Cochran.

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

Senator BURDICK. The subcommittee will come to order.

Good morning, ladies and gentlemen. This morning we continue our hearings reviewing the 1990 budget for Agriculture, Rural Development and Related Agencies. We continue today to hear from the nondepartmental witnesses, a very important part of the hearing process because we will hear from members of the public as to how the programs appropriated by this subcommittee affect their businesses, industries, and everyday lives.

I welcome all the witnesses today and would like to remind you that your written statements will be kept in the file by the subcommittee and will not go into the hearing transcript. Only your oral comments will be part of the transcript. Nevertheless, the written statements will carry the same weight as your testimony. The subcommittee is taking this measure in order to reduce printing costs.

The witnesses are asked to limit their comments to 5 minutes. A stopclock is provided; it would be appreciated if you could keep your eye on it and finish when the light turns red.

PREPARED STATEMENT

Senator Paul Sarbanes was scheduled to appear first, but due to a conflict, he cannot be here. Therefore, his statement will be made a part of the record at this time without objection.

[The statement follows:]

STATEMENT OF SENATOR SARBANES

Thank you Mr. Chairman for this opportunity to appear here today and to share my views on the Fiscal 1990 budget for the U.S. Department of Agriculture (USDA). I would specifically like to address two programs of great importance to our State, regional and national agricultural conservation and research efforts—the USDA's soil and water conservation activities in the Chesapeake Bay watershed and the facility improvement efforts at the Beltsville Agricultural Research Center (BARC). I have written and testified before this Subcommittee on previous occasions on behalf of these programs and, today, want to underscore the critical importance of maintaining and enhancing efforts in these areas.

The conservation programs of the Soil Conservation Service (SCS) and the Agricultural Stabilization and Conservation Service (ASCS) are an integral part of the cooperative Federal, State and local effort to clean up the Chesapeake Bay. EPA's 1983 Chesapeake Bay study identified non-point source pollution coming from agriculturally related practices as a key contributor to the declining water quality of the Chesapeake Bay. According to that report, approximately one-third of the phosphates and two-thirds of the nitrogen pollutants come from non-point sources such as sediment and animal wastes which enter the Bay from agricultural lands. As the lead Federal agencies in providing technical stance, training, cost-sharing and a variety of specific controls called Best Management Practices, the SCS and the ASCS play a vital role in reducing soil loss and associated nutrient loads to the Bay.

With the signing of the new Chesapeake Bay Agreement in December, 1987, that role has become even more critical. The centerpiece of that pact is a commitment by the Bay-area States and the Federal government to achieve a 40 percent reduction of nitrogen and phosphorous loads to the mainstream of the Bay by the year 2000. In support of this commitment and the new Bay Agreement, the Soil Conservation Service and the Agricultural Stabilization and Conservation Service have signed memoranda of understanding with EPA to supplement former agreements between USDA and EPA and improve coordination in the Bay Program. A Basinwide Nutrient Reduction Strategy has been adopted by the signatories to the Agreement outlining the broad range of nutrient control programs that will have to be implemented in the Chesapeake Bay Basin to meet the 40 percent target. One thing is certain—achieving this goal will require that the Federal Government and the States maintain and strengthen existing agricultural conservation programs and provide additional resources for new programs.

This Committee has consistently demonstrated its full support of the USDA's conservation programs by providing the funds necessary to continue them. Again, I would like to thank the Committee especially for your help last year in providing $1.6 million to fund 41 SCS positions in the Bay area states. Your leadership is continuing to show results through the accomplishments in the field. In fiscal 1988, SCS personnel and programs provided needed technical assistance to about 39,000 farmers in the six states surrounding the Bay producing conservation plans for about 1.2 million acres. Implementation of these plans will result in 2.9 million tons of soil erosion being saved. The SCS estimates that this reduction in soil erosion will reduce phosphorus and nitrogen loadings to the Bay by 1,500 tons and 7,700 tons, respectively. For fiscal 1989 the reductions in soil and nutrients is expected to be even greater.

In fiscal 1990, the Administration's budget request for the Soil Conservation Service has proposed an increase of $2.6 million to accelerate technical assistance for water quality initiatives in certain regional projects including the Chesapeake Bay. This would provide approximately $520,000 in additional funds for the Chesapeake Bay Program, bringing the total to about $2.2 million and supporting 47 positions in the six States in the Bay watershed, including Delaware, West Virginia and New York. These additional funds will have a very positive impact on the Chesapeake Bay restoration effort and I urge the Committee to make these funds available.

However, the request also proposes to reduce severely funds available for other important SCS programs, including an 84 percent reduction ($71 million) in watershed and flood prevention operations, a 20 percent reduction ($2.5 million) in River Basin Survey and Investigation, a 10 percent ($.8 million) reduction in watershed planning and a completed phase out of the Rural Abandoned Mine Program. ASCS cost-share programs fared even worse. The Agricultural Conservation Program (ACP) and the Forestry Incentives Program were virtually eliminated.

These proposed program decreases should be rejected. All these programs benefit and contribute to soil conservation work in general and to the Chesapeake Bay cleanup program. The programs work in tandem and are based on a combination of education, technical assistance and financial assistance. SCS and ASCS assistance must be maintained and enhanced to ensure adequate protection of our natural resources. I greatly appreciate your support in previous years for USDA's conservation programs and request your continued help in this regard.

Second, I ask the Committee's continued assistance in addressing the funding needs of the Beltsville Agricultural Research Center (BARC). As you know, BARC is the single largest agricultural research center in the world. The Center has long enjoyed a reputation for leadership in the agricultural sciences because of the quality and scope of its research, contributions to agriculture, and prominent scientific staff. BARC's research activities on environmental quality, food safety and nutrition, climate change, and biotechnology among others are vital to keeping our nation in the forefront of agricultural production and competitiveness. Unfortunately, deterioration and obsolescence of many of the Center's 50-year old facilities and infrastructure are hampering the quality of scientific research and the image of BARC.

A modernization program called Renaissance 93 was launched in 1985 to rejuvenate the Center and bring it up to tomorrow's standards. With the Committee's assistance, incremental funding of approximately $8–$10 million a year has been provided for urgently needed repair and maintenance work, energy retrofit, renovation, and upgrading or replacing sewers and roads. I have attached to my statement a summary of the projects completed in fiscal years 1986–88 and underway for fiscal year 1989 and ask that it be made part of the record.

The Administration's budget request includes $10.52 million for BARC modernization for fiscal 1990. However, preliminary findings of an engineering consulting firm which is assisting BARC with its facility modernization planning indicate that there is a need to accelerate funding beyond $10 million per year to address remaining infrastructure requirements, improve security systems and provide for selected new construction when it is more cost effective than renovation. An additional $10.3 million above the budget request is needed in Fiscal 1990 to repair and correct safety problems on Powder Mill Road, for planning and design of a human nutrition research facility in cooperation with the National Institutes of Health, and to strengthen BARC security and safety support systems. For research programs, $4.6 million is needed to enhance research capabilities in human nutrition, environmental quality and gypsy moth research. I have attached additional documentation of the details and cost analysis for these projects and ask that they be made part of the record.

I greatly appreciate the Committee's past support for the Beltsville Agricultural Research Center and its long-term program needs and hope you will continue to give BARC a very high priority.

Thank you again for permitting me this opportunity to testify before the Committee.

[Attachment A]

BARC Facility Modernization—Progress in fiscal years 1986, 1987, and 1988

Fiscal year 1986

Computer room, B–007	$118,000
New water services	197,000
Stairwell enclosures	148,000
Fire escapes	298,000
HVAC upgrades—seven buildings	255,000
Circle drive	845,000
Steamline replacement	525,000
B–006 renovation (NFMP)	1,728,000
Miscellaneous R&M projects	145,000
Total	4,259,000

Fiscal year 1987

B–163F renovation	$571,000
Exterior painting	159,000
Retrofit steamlines	881,000
Renovate Greenhound-Range 2	484,000
Design B–007	386,000
Asbestos study	163,000
Log lodge	583,000
Convert B–1180 to lab	219,000
Miscellaneous projects	350,000
Total	3,796,000

Fiscal year 1988

Renovate B-007 (NFMP)	**$4,710,000**
Design B-003 (NFMP)	**400,000**
Relocate mail room B-012	**123,000**
Facility study	**1,000,000**
Renovate Abattoir, B-204	**482,000**
Renovate B-303	**575,000**
Modify HVAC, B-306	**110,000**
Bridge repairs	**320,000**
SCS road	**1,752,000**
Waterlines	**1,150,000**
Miscellaneous projects, USNA	**153,000**
Miscellaneous projects, BARC (under $100,000)	**1,138,000**
Total	**11,913,000**
Grand total (fiscal years 1986, 1987, 1988)	**19,968,000**

1989 MODERNIZATION PROJECTS

February 13, 1989

Project	Study	Design	Construct	Totals
Building 003 (NFMP)			$5,900,000	$5,900,000
Renovate building 001 and 002		980,000		980,000
Annual exterior painting			100,000	100,000
Annual roof repairs			200,000	200,000
Roof repairs at arboretum			300,000	300,000
Repair USNA GH electrical system		25,000	500,000	525,000
Phase IV steamlines			1,100,000	1,100,000
Building 014 oil to gas conversion			328,237	328,237
Steamlines phase V	7,000			7,000
Repair/replace steamlines for buildings 161, 179, 202, and 204	7,000			7,000
Building 203 (boar house) (see 816 below; $125,000)			478,000	478,000
Relocations/swing space, B-003; B-007; B-006; B-303			300,000	300,000
Pesticide handling facilities			400,000	400,000
Hazardous chemical handling facilities			90,000	90,000
Paving, log lodge			86,000	86,000
Building 007 (clean-up)			2,731	2,731
Building 306			20,045	20,045
Contingency for urgent unplanned projects; design changes and minor R&M			333,987	333,987
Subtotals	14,000	1,005,000	10,139,000	11,158,000
Building 204 (Abattoir)			425,000	425,000
Reline/repair waterlines—west			1,150,000	1,150,000
Subtotals	14,000	1,005,000	11,714,000	[1] 12,733,000
New York Avenue entrance (brickyard)		300,000	1,700,000	2,000,000
Small animal facility (BNNRC)		79,926	800,000	879,926
Subtotals	14,000	1,384,926	14,214,000	[2] 15,612,926
Totals	14,000	1,384,926	14,214,000	15,612,926

[1] Includes Carryover No Year Money (C.13=1.05 million; B.16 and B.17=550,000).

[2] Includes funds available from Plum Island contractor default.

*BA Security=$110,000 (Accounting Code 9011201616).

Basis and Rationale for BARC's Additional Funding Requirements in Fiscal Year 1990

1. *Powder Mill Road Reconstruction, $5.0 million.*—This road runs 5.5 miles east-west through BARC and the Patuxent Wildlife Research Center. Although exten-

sively used as a public thoroughfare, the road is owned by the U.S. Department of Agriculture (4.5 miles) and U.S. Department of Interior (1.0 miles). Neither the State of Maryland nor Prince George's County provide maintenance. The road is in critical need of repair and realignment to correct safety problems and serve all Federal agency programs in the BARC vicinity. This is a one-year $5.0 million funding request.

2. *Planning and Design Human Nutrition Research Facility, $3.7 million.*—The aging facilities (50 years old) occupied by the Beltsville Human Nutrition Research Center at BARC are no longer adequate for the important food quality and human nutrition diet research conducted at this Center. A new human nutrition facility located at BARC will contain state-of-the-art laboratories, animal rooms, and a human study capability for free-living subjects. The National Cancer Institute of the National Institutes of Health is also seeking a human study facility to pursue the promising research strategy of preventing cancer via improved knowledge of diets and nutrition. NIH already has extensive collaboration with BARC and has expressed strong interest in co-locating at BARC in the proposed joint facility. This is a one-year funding request of $3.7 million for planning and design funds only, to be followed by construction appropriations in subsequent years.

3. *Strengthen BARC Security and Safety Support Systems, $1.6 million.*—BARC and its tenant agencies are experiencing increasingly severe problems with vandalism and theft of valuable property and destructive interference with research programs. Active and passive security systems in the form of improved security, fencing, computerized key card systems, tele-electronic intrusion sensing, alarm systems, monitoring capabilities, and an expanded guard force are essential to adequately protect BARC's and property and research. In addition to security issues, compliance requirements of environmental laws require a much expanded safety and health staff along with operational support to effectively manage hazardous waste at BARC. A strengthened facility engineering support staff is essential to both the security and safety needs of the Center. This is a recurring need requiring a permanent addition to BARC base funds of $1.6 million annually.

4. *Human Nutrition Research, $2.0 million.*—Increased quality and nutrition of foods are among the highest agricultural research priorities of the nation and the consuming public. The Beltsville Human Nutrition Research Center at BARC has already established important linkages between diet and human health, including cancer and heart disease. This work is the product of extensive research collaboration between BARC, the National Institutes of Health, and University medical institutions. As more is learned about the need for designing foods, a unique opportunity exists at BARC for orienting traditional agricultural crop and animal production research to development of improved food products. Strengthening the human nutrition research capability to fulfill these national needs requires a $2.2 million permanent addition to base funds at BARC.

5. *Environmental Quality Research, $2.2 million.*—Increased public concerns about the safety of drinking water and foods due to agricultural chemical residues require an acceleration of research to understand the movement and behavior of pesticide chemicals in the environment and to develop alternative crop production and pest control technologies. Also, global warming and other climate changes due to enhanced levels of ultraviolet radiation and atmospheric carbon dioxide have the real potential to restrict the nation's capacity to produce crop and livestock food products. BARC has a large core staff of soil and crop scientists available to help solve these critical national problems. A permanent fund increase of $2.2 million to the BARC base is needed.

6. *Gypsy Moth Research, $0.4 million.*—BARC has an ongoing base research program of about four scientists and $700,000 aimed at developing controls for gypsy moths with emphasis on urban environments. Promising new technologies are on the threshold of development. These include an improved virus strain for biological control and management systems for gypsy moth control in municipal parks. The research needs to be accelerated with two new scientists and a $400,000 recurring increase.

CONGRESSIONAL WITNESS

STATEMENT OF HON. JOHN GLENN, U.S. SENATOR FROM OHIO

Senator **BURDICK**. Senator Glenn has arrived, and he will be heard first.

Senator Glenn, welcome to the committee.

Senator **Glenn**. Thank you, Mr. Chairman. I appreciate that very much. It is a pleasure to testify before your subcommittee on the fiscal year 1990 appropriations for the Department of Agriculture.

Mr. Chairman and members of the subcommittee, I am coming before you once again to urge you to support our proposal to invest much more heavily in research on new nonfood uses for traditional food commodities.

In this Nation in so many different areas, we are very good at research, and we do wondrous things with research. I think that is what has led us into preeminence in this world. Agriculture is no exception to that rule.

Historically we have had farm surpluses that developed so much that supply far, far, far exceeded demand. Now there are primarily two ways of dealing with the problem. One option is to pay farmers to take land out of production and to supplement losses to farm income that are caused by low market prices. That is the approach taken by our current farm programs. This option can be extremely costly, as demonstrated in 1986 when the Government paid $26.8 billion to farmers. Since 1985, farm programs have cost the Government $92.2 billion.

The second option, one I very strongly support, is to expand research and market development activities to increase demand for commodities produced by the Nation's family farmers, and the increased demand will result in higher prices for these commodities and, therefore, Government expenditures will be reduced.

Now given our current budget constraints and the great challenge we face of reaching a balanced budget, we have more incentive than ever to expand research in market development activities. Accelerated research on new nonfood uses for agricultural commodities can stimulate demand for farm commodities. This will bring higher market prices and lower Government costs.

As just one example, with the tremendous volume of corn that we produce in this country, the Government will save approximately $50 million for each 1-cent-per-bushel increase in the market price of corn. That is a tremendous saving. Overall savings will be substantial when you consider the variety of farm commodities with potential nonfood uses.

There is potential for great gains in the development of new nonfood uses for agricultural commodities. We have seen some expansion. Right now, corn starch is used not just in producing alcohol but also in manufacturing paper products, building materials, textiles, adhesives. A component of corn starch can be used as an additive to polyethylene to create biodegradable plastic, and we have seen an expansion in that market partly under our sponsorship here.

Soybean oil can be used to manufacture printers ink, potentially using 25 million bushels of soybeans per year.

Industrial uses for corn byproducts also include application as a highway deicer, use as a new process that is being looked at which I am particularly interested in to desulfurize coal, and as an additive to improve the quality of motor fuel.

A commitment to develop these uses further will not only increase domestic demand for agricultural products but may enhance our foreign market as well.

Now, Mr. Chairman, I commend the Department of Agriculture for their past accomplishments, particularly in the area of production research. They are so good at that. We have looked into soil stabilization, into fertilizers, hybrids, all the things we know that give us mountains of surpluses that we have trouble getting rid of. We cannot even pile them up along some of the sidings out in the West in a good year.

The Department, however, has not yet even begun to make the shift in any way shape or form from productivity research to utilization research, and that is what I feel is so urgently needed.

Research on new nonfood products has remained stable over the last several years, and the Department proposes the same level of funding again in 1990. This funding level of approximately only $13 million is seriously deficient.

We have a total budget for the Agricultural Research Service of approximately $560 million with $13 million for looking into these new nonfood uses that I think have the potential of being tremendously productive. Even that expenditure of $13 million currently being invested by the Department of Agriculture on new nonfood use research is not being targeted in the right direction.

I recently met with the administrator of the Agricultural Research Service on this issue, and he provided me with some detailed information that I had requested on projects being funded for new nonfood use research. We found that well over one-half of the $13 million expenditures are actually for research on improvements to products from traditional nonfood commodities such as cotton and wool. So I believe we have a definitional problem.

As far as I am concerned, new nonfood use research should focus on developing innovative nonfood products from food crops that have been traditionally used for food products. I think research in this area presents the most promise for creating expansive new markets for farm commodities.

What I would like to propose, Mr. Chairman, is to earmark $50 million from the Agricultural Research Service 1990 budget for research on new nonfood uses for food crops. That is hardly a big chunk out of their $560 million.

I am not proposing additional funding. Rather, I am just recommending that ARS earmark the funds within their existing budget.

I also believe more could be done through the competitive research grants under the Cooperative State Research Service. We need to encourage more non-Federal research with an effort to maximize the accessibility of research findings to those who will potentially market the products.

I propose that $10 million be added to the CSRS 1990 request for competitive research grants for research on new nonfood uses for food products.

I am very confident we can work together to ensure more emphasis on new nonfood use research by the Department of Agriculture, and we must assign a higher priority to utilization research and, more specifically, to new nonfood use research in both the Agricultural Research Service and the Cooperative State Research Service.

So thank you again, Mr. Chairman, for this opportunity to present my proposals. I would just like to see us taking some of this money we have used in the past, some $560 million, almost all of it going to research on how we produce more when we already have done so well we have surpluses. Let us transfer some over into the use side where we can use the traditional food products that we produce in this country for nonfood uses.

We may be able to make wallboard plastic for automobile bodies. We already have biodegradable plastics for shopping bags and things like that. I think that is a tremendous opportunity for us, and I hope we can see fit to transfer some of the money over to that research.

Thank you.

Senator BURDICK. Thank you.

The Agricultural Research Service currently spends $25.3 million on nonfood uses of agricultural commodities, including everything from cotton to corn. Thirteen million dollars of this amount is for new nonfood uses of food crops.

Is your proposal for $50 million over and above the $13 million earmarked for ongoing nonfood use research?

Senator GLENN. I would be quite happy to have it be over and above. We proposed it with the idea that it would replace the $13 million, Mr. Chairman. I would like to see it go on up above that. The amount that you say is being spent for research for nonfood use is true; it is.

When we looked into the $13 million that you mention, over one-half of that is being used for wool and cotton research. So it is not the nonfood uses of the traditional corn and wheat surpluses. It does not deal with that as we are proposing it to be looked into with the expansion of the $13 to $50 million.

~~Senator~~ BURDICK. I understand what you are talking about, Senator, because we do not have much cotton in North Dakota. [Laughter.]

Do you think other research projects should be eliminated so that research can be expanded?

Senator GLENN. I do not think other projects would have to be eliminated. They have a budget of $560 million. Certainly we can find just a little under 10 percent of that to apply to the potential that nonfood uses research has.

I am very complimentary, Mr. Chairman, to the Agriculture Department and particularly ARS for the wonderful job they have done through the years. I remember when I was a boy back home in Ohio, I think that corn production at that time averaged something like 45 to 50 bushels per acre for a good year's crop. Now last year in Ohio I think we averaged 137 bushels per acre, something of that order. That is largely due to what ARS did.

They researched the soils and fertilizers and hybrids and all the things you are so familiar with in your part of the country regarding better production. They kept on that roll, however, and we have just a tiny part of $560 million not going into additional production.

If we could just make better use of some of this and do the research that we are so good at in trying to determine how we use some of these for nonfood uses, I see that as having a tremendous impact for the future. They could be just as good in that area as they have been in the production area if they just put a little money into it and get some of their fine, fine scientists working in that area.

Also, with the State cooperative programs we have so many fine agricultural departments in our State colleges and universities around this country, working with those through the States is another, I think, very fertile field.

Senator BURDICK. Thank you very much, Senator.

Senator GLENN. Thank you very much.

Mr. Chairman, Lori Stewart, who is with me here this morning, is in my office on one of these interagency fellowships this year and has done a lot of work on that, and I wanted to give her credit here this morning also.

Thank you, Mr. Chairman.

Senator BURDICK. Our next witness will be Dr. Kenneth Graziano of the Association of Biotechnology Companies, representing the Coalition for FDA Resources.

Welcome to the committee.

COALITION FOR FDA RESOURCES

STATEMENT OF DR. KENNETH GRAZIANO, ASSOCIATION OF BIOTECHNOLOGY COMPANIES

Dr. GRAZIANO. Mr. Chairman and members of the subcommittee, the Coalition for FDA Resources thanks you for the opportunity to present its views on the fiscal year 1990 appropriation for the Food and Drug Administration. My name is Kenneth Graziano, and I am the chairman of the Regulatory and Patent Affairs Committee of the Association of Biotechnology Companies. I am representing the coalition this morning.

The coalition was founded to bring together a broad spectrum of organizations mirroring the equally broad mandate of the FDA. Each of these groups from its broad, unique perspective is committed to working for FDA funding sufficient to enable the agency to do the job Congress has given it.

We need not dwell on the enormous scope of FDA's tasks in ensuring for a nation of 250 million people the safety of the food supply, the expeditious review of medical devices and of medicines for both humans and animals, and in carrying out its own research and educational activities.

The routine performance of these duties would justify considerably more resources than have been available to the agency, but additional challenges mount without relief: special attention to AIDS therapies, terrorist threats to the food supply, an onslaught of biotechnology product applications and new duties imposed by Congress.

The Bush administration has recognized the need and recognizes an increase in budget, but there are two issues which arise from its approach. First, $100 million of the total is to be funded through user fees. Second, the figures sought may well not be enough to get the job done.

We would like to briefly address the user-fee issue. Others will dwell upon it more at length, but we feel it is important to register our opposition as well. The user-fee concept, while perhaps laudable in some context, is not a suitable way to generate funds from drug or device approvals or from inspections designed to protect the public. The user fee system would weaken public confidence in FDA's judgment and could well distort resources distribution within the agency.

It would fall most heavily on small companies, startup companies, and would discourage investment in useful activities with marginal financial return such as the development of orphan drugs or for additional indications for a drug.

Most importantly under the administration's proposal, the implementation of user fees will not result in more funds for the FDA but cause a shift in the burden of funding from the public to the private sector. Yet, the public in general derives benefit and is well served by FDA functions. Thus, there should be no hesitation in funding the agency fully with normally appropriated moneys.

Our second concern is the inadequacy of the administration's budget request. The President's budget asks for $542.7 million in salaries and expenses, approximately 10 percent above last year's figure. Most of this increase, however, is devoted to maintaining existing service levels and to AIDS increases. The budget contains only 3.7 percent for additional non-AIDS program activities, and it contemplates no additional personnel.

In FDA's case, ever-increasing demands are expected to be met with constant resources. For example, on the administration's fiscal year 1990 request the FDA's operating budget in constant dollars will for the first time since 1979 reach the level it attained in that year. Also in 1979, FDA had 8,179 full-time equivalents, FTE's. For fiscal year 1990 the administration contemplates 7,001 FTE's, exclusive of AIDS.

During the intervening 11 years, new statutory duties have required 1,040 FTE's annually at current levels. Again, we are presently demanding that the FDA perform those core 1979 functions at 1990 levels with only 75 percent of the personnel it had then.

Clearly, the FDA has staffing problems. Recent examples such as implementing new tasks mandated by the general animal drug amendments and increased imported food pesticide monitoring imposed by last year's trade bill will require some additional FTE's as well as commensurate funding. The administration's request makes no allowances for these new needs.

The actual extraordinary demands placed upon the agency by the Chilean fruit crisis will consume, according to the FDA, the equivalent of 50 FTE's or more. The need for additional staff with biotechnology expertise is unabated throughout all areas of the agency. Of the FDA's total $18.4 million program increase, $14.5 million is dedicated to biotechnology. OMB has directed that none of these funds are to be used for additional personnel.

One thing this subcommittee could do to advance the development and commercialization of biotechnology products is to direct that these funds be used to assure adequate FDA staffing. With appropriate education and experience in this area, in view of these resource needs we urge the subcommittee to insist on adequate FTE levels for the 1990 fiscal year, not including AIDS personnel.

AIDS continues to pose resource problems for the agency. In 1989 it is estimated that it will use for AIDS work 50 more FTE's than funded for that purpose in its budget. Each of these is drawn from some other program, to the detriment of other activities. This is not fair to those who await the approval of drugs and devices for other conditions. AIDS must be funded and staffed adequately on its own.

As noted last year, the coalition is also very concerned over the state of FDA's physical facilities. There is a critical need to upgrade its facilities over all. We are pleased that Congress last year directed FDA and GSA to explore resource needs and review options for meeting them which should include lease purchase authority for maximum flexibility. We encourage the subcommittee to continue to press for a prompt resolution of this matter.

At this point it is clear that the funds and personnel required for a healthy, vigorous FDA exceed significantly the administration's request. We concur in the sentiments of a recent statement to the Senate Budget Committee by Chairman Burdick and Senators Hatch, Bumpers, Kennedy, and Kerrey.

I quote:

> We request you to provide an additional $50 million to meet the urgent infrastructure needs of FDA, including personnel, training facilities, and equipment. In recent years, while Federal funds committed to basic health research have grown significantly, FDA's shrinking resources have limited applied research and slowed product approvals for product use. Ultimately, our ability to compete internationally in new scientific fields and to meet the needs of our Nation for safe, dependable products requires that we are firmly committed to FDA over the long term.

The functions of the Food and Drug Administration have become essential to the maintenance of what we consider modern society. We take them for granted, but consumers and patients alike would rank them at the top of the benefits provided by our Government to its people. We hope the subcommittee will give those functions the priorities they deserve. We look forward to assisting you to achieve this goal in any way we can.

Thank you.

Senator **Burdick**. Thank you, Doctor.

You note that 10 years ago FDA had almost 1,200 more employees than it does today. Yet, the agency has far more responsibility.

How does the American consumer suffer as a result of the insufficient staffing levels? Are we forcing FDA to choose the area of its focus, perhaps even compromising one area such as new product review for pesticide residue or food tampering inspections? What is your comment on that?

Dr. **Graziano**. Basically, Mr. Chairman, what happens is that the process is slowed. I had worked for the agency for 10 years, and the people within the agency cannot do their job. They just do their job as well as they can in the time that they have available to them. So safety is not compromised. It is the speed at which the agency is able to act on all issues that is compromised.

Senator **Burdick**. Would the $50 million increase you recommend be sufficient to address FDA's current problems?

Dr. **Graziano**. I think it is a good start in that direction, sir.

Senator **Burdick**. Thank you very much.

Our next witness will be the FDA Council, Mr. Robert Dresing, president, Cystic Fibrosis Foundation; Mr. Gerald Buck, chairman and CEO of Cambridge Bioscience; and Dr. Robert Scanlon, Georgetown University.

FDA Council

STATEMENT OF ROBERT DRESING, PRESIDENT, CYSTIC FIBROSIS FOUNDATION

ACCOMPANIED BY:

GERALD BUCK, CHAIRMAN AND CEO, CAMBRIDGE BIOSCIENCE

DR. ROBERT SCANLON, GEORGETOWN UNIVERSITY

Mr. Dresing. Thank you, Mr. Chairman.

I place before you our campaign materials. Actually, it is a brochure that explains the FDA Council. We are here this morning representing that council and appreciate the opportunity to appear before you.

With me this morning is Dr. Robert Scanlon, who is a practicing physician and a member of the Joint Council of Allergy and Immunology, and Mr. Gerald Buck who is chairman of Cambridge Bioscience. I ask that our complete statement be submitted for the record if we could, please.

Senator Burdick. It will be made a part of the committee files.

Mr. Dresing. Thank you, sir.

Our organization is part of a coalition at the FDA Council. It is a new coalition. It is very broad based. It is composed of representatives from voluntary health agencies, professional societies and from researchers and also from industry.

Incidentally, it is the first time that an agency that is composed of consumer representatives and researchers and physicians as well as members of industry have ever come together to advocate on behalf of a regulatory agency. You may ask why we are doing this. It is because we believe that the FDA is a vital part of the fiber of this great country, but we are very, very concerned about its ability to function as a resource that is as necessary as it is.

Basically what we are concerned about is that the agency is at a breaking point. The result of the lack of resources that are available to the FDA does not really allow it to be in a position to do the job that it needs to do in the 21st century, let alone the problems that we are facing today.

The infrastructure has tremendous needs in space and facilities, personnel, training, equipment, and instrumentation. We have provided for you this brochure that explains and highlights what we believe the needs of the infrastructure are, but we would like this morning with Dr. Scanlon and with Mr. Buck to talk to you specifically about what those needs are.

Bob.

STATEMENT OF DR. ROBERT SCANLON

Dr. Scanlon. Mr. Chairman, I am Dr. Robert Scanlon. As mentioned, I am at Georgetown, and I also have a practice in allergy in Bethesda, MD. I am here as a volunteer and a member of the Joint Council of Allergy and Immunology. We represent approximately

3,200 allergists and immunologists throughout the country, and we appreciate the chance to come here and testify before you today.

Our main concerns are deficiencies that exist in the Food and Drug Administration, deficiencies which affect us as physicians and scientists in our dealing with patients, and in that way we represent our patients. Because of our patients we feel we do have a responsibility to help in any way to solve some of these problems in the FDA.

Our main concern has to do with the review process, a process which we know takes advanced medical knowledge and applied medical knowledge and newer methods, takes it from the laboratory and puts it in the physician's office so that it is available for patient care.

Any decrease in the flow or a decrease in the process is going to translate into a decrease in getting these drugs to the patient. Now, the idea that there could occur a deficiency is readily seen when one considers that in the past few years public and private research development efforts have increased threefold. But the budget for the FDA, when it is considered in the total health care research and development funds, has decreased from approximately 4.2 percent to 2.6 percent.

Now I feel that the effect of this decrease in funding can be applied to the medical reviewers. For the most part, these are young physicians and scientists who have just finished their training and entered their jobs with enthusiasm. Unfortunately, the enthusiasm is blunted when they find that their on-job training program is inferior by far to an organized training program which the FDA lacks due to lack of funds.

Because of the case overload and because of lack of time and particularly because of a scarcity or a shortage of other collegial peers to talk over cases and talk over problem cases, there is also an impedance in learning.

Finally, these young scientists and reviewers cannot participate in research because of lack of time and as a result feel isolated and feel out of the mainstream of science in which they are supposed to be the authorities.

So in summary, Mr. Chairman, I wish to state or add that in the past 20 years there has been a virtual explosion in medical knowledge. Up to this point the FDA has done a good job in handling this, but over the recent years these deficiencies have occurred. It has to do with funding.

If we are going to keep this as a premier regulatory agency in this country and throughout the world and if our patients are to get the drugs in the quickest way possible, then I would feel that any investment is an investment in the future.

Thank you.

STATEMENT OF GERALD BUCK

Mr. BUCK. Mr. Chairman, I am Gerry Buck, chairman and CEO of Cambridge Bioscience. We are a recently established biotechnology firm involved in the fields of recombinant DNA technology, structural biology, and protein chemistry. My colleagues and I appreciate tremendously the opportunity to testify before you today and would also like to take this opportunity to thank you for your past support of the FDA and your keen interest in this agency.

I would like to focus my comments on the three areas that appear to impose the most severe constraints on the FDA. Those are space and facilities, personnel, and equipment and instrumentation.

The FDA, as you are well aware, is presently located in 23 outdated and overcrowded buildings in seven separate geographical locations throughout the Washington metro area. This housing crisis poses several very important situations which we believe should be addressed in order to bring the FDA into the current state of the art.

For example, these housing issues are unnecessarily increasing the time for product review. We believe that ultimately this has delayed many important technological advances from getting into the hands of the consumers. It also, we believe, imposes an increasing threat from foreign competition.

Mr. Chairman, the only thing I can say at this point is that the situation gets worse when we look at the personnel. The FDA has experienced a huge reduction in personnel over the past decade; however, during this same time period 23 new laws have been passed which have expanded the authorities and responsibilities of the agency. If one did an analysis of the past 10 years and calculated the impacted man-hours particularly in view of the increased workload for the agency as a result of AIDS, of biotechnology, and of other fields in medical research which have produced rapid advances over the past 10 years, one could surmise that the FDA at its present staffing levels is about 2,000 employees short.

When we look at capital equipment, the needs have been hampered by fiscal constraints over the past decade. As a result productivity at the FDA has been hampered, and this has been passed off to companies such as ours in terms of the lengthened review process and the cost of product development prior to getting those products into the market.

A coordinated and efficient information management system is necessary if the FDA is to become a high-technology agency. As Dr. Scanlon was saying, we must be capable of interacting and communicating with the many industries and scientists that it must be able to maintain in order to carry out its job.

As an example, if you consider the ease of review that a new product application could take through a computer-based system versus the standing at the present standard operating procedure of cataloging and then manually reviewing, for example, an up to 150-page document as an application, this lack of evolution at the FDA in this area may well be the contributing factor in our ability to maintain our competitive edge in many segments of the industry in which the FDA is regulating.

So what does the future hold for the FDA? In my field in biotechnology, a 400-percent increase in workload has been realized in the last decade. In biologics the workload has increased by 318 percent, the staff by only 90 percent. The Center for Veterinary Medicine has had to handle a 40-percent increase in applications in the last decade, while its staff of reviewers has decreased by 30 percent.

Predictions for new product applications over the next 15 years, the estimates vary but we believe that they will double from approximately 15,000 product applications annually to 30,000.

So in essence, the demands on the agency are only going to become greater as we approach this next century. They have no chance of lessening. We need to realistically look at the resource needs of the FDA in the context of our expectations.

Mr. Chairman, thank you very much.

Mr. **Dresing**. Mr. Chairman, if I might conclude very briefly in a personal way.

I am the parent of a child with cystic fibrosis. Thirty-five years ago all of those children died before they were 5 years of age. I am happy to tell you that my son has joined the larger population of children now that are surviving into adulthood, but that has only been possible because the drugs have been provided for these children which have allowed us some time until the basic research can unravel the disease and possibly give them a cure.

Now we have a new drug that is presently going through the system, and it could be applied to children like my son. My fears are that, knowing historically that it takes 20 to 36 months to get a new drug through the process, and that, sir, is after it has been tried clinically on these children for 4 or 5 years, the clock is running and the opportunity for these children to take advantage of drugs like this is diminishing.

We do know that it can work, and it has worked by example with the development of AZT, which took 4 months to get into the process where it could be applied to the patient population. I think that we as parents of children with catastrophic and fatal diseases have that same right to have that process speeded up to the point that we can bring these products to the bedside and apply them to the patient population.

We have great fears that, as have been illustrated this morning, the FDA is not going to be able to meet that challenge. Very basically, what we are asking for is an increase in funding over the recommended Presidential budget request. Of $150 million, only $100 million of that would go to restore the costs that are being advocated as user fee supplements. We believe that that is improper.

It is only $78 million over the 1989 appropriation, but the real crux is the $50 million that would provide for the development of the new resource needs, specifically the architectural and engineering concept study for a consolidated facility, the restoration of personnel cutbacks that they have suffered, the upgrade of computer capabilities and equipment and instrumentation, and finally providing for funding for the regulatory review of grants.

We could not let the hearing pass without paying home to the job that the FDA Council or the FDA is doing. It is remarkable. We recognize they are terribly understaffed.

Sir, we also would like to thank you for the past support that you have provided for requests such as this.

Thank you.

Senator **Burdick**. There is no question that you have touched upon a very important issue here. The only thing I would like to add is that we have made some strides in science that have relieved us of the necessity of the manpower we had before; not in all areas. Other areas are growing, but to give you an example, I had a cartilage taken out at the University of Minnesota, a football injury. I was at the University of Minnesota Hospital for 30 days. Now they have a probe that gets that broken cartilage out in an hour.

So there are some labor-saving devices that are being developed; but you are right. We are way behind. Now it is a question of budget. Now it is a question of how we can accommodate.

I do have a couple of questions here, and I could not resist talking about that cartilage example.

Mr. DRESING. That is a good example, sir.

Senator BURDICK. I appreciate the testimony you all have provided for the committee. Over the past year I have been working with the FDA Council to address the serious resource shortages at FDA. Like you, I know we must improve the quality and efficiency of the medical reviews. I was disappointed that the Budget Committee has not rejected user fees for FDA as a possible source of budget savings.

Dr. Scanlon, if help for funding cannot be provided this year, do you think there will be additional stress on FDA to apply its limited resources?

Dr. SCANLON. I do. As I said, there has been an explosion, and it is continuing to explode. There are new drugs that are waiting to be approved, and they just do not have the time to get to them. This is in detriment to the patients.

Senator BURDICK. Mr. Buck, in what areas do you see biotechnological advances requiring the greatest share of FDA resources?

Mr. BUCK. Well, sir, we are seeing biotechnology now, I think, coming to a stage of fruition. We are seeing this in the advancement of the recombinant DNA, in the development of pharmaceutical candidate compounds and in the potential for vaccines.

I think that if we were to see a substantial breakthrough in the technology, that would lead us to improvements in the treatment, for example, of AIDS or hopefully a cure for AIDS or hopefully a vaccine developed to prevent AIDS.

The FDA would be hardpressed to deal with that new technology at this time, as one example.

Senator BURDICK. Mr. Dresing, do you know whether the delay in drug reviews is primarily a result of inadequate resources, or are delays caused by other factors inherent in the review process such as inconclusive clinical trials?

Mr. DRESING. No, sir; I believe that the problem is we just do not have the resources to throw at the issues. I think that the clinical trials are being well executed. The problem in the review of those trials and the determination of whether it goes the next step and whether there is a faster route that it might go.

The other problem that we are having is that the basic ability of the people to review the science that is being created today is beginning to outstrip our resources. We have to be able to attract the best and the brightest and train them so that they can keep up with the level of science that they are being challenged to review.

Senator BURDICK. We have a problem, have we not?

Mr. DRESING. Yes, sir; we certainly have.

Senator BURDICK. We will do our best.

Mr. **Dresing**. We appreciate that. You have been of great support. Thank you.

Senator **Burdick**. The American Farm Bureau Federation, Grace Ellen Rice, associate director.

AMERICAN FARM BUREAU FEDERATION

STATEMENT OF GRACE ELLEN RICE, ASSOCIATE

Ms. **Rice**. Good morning, Mr. Chairman. We appreciate the opportunity to once again be before the committee to discuss the 1990 budget. I think you will find that our message really has not changed that much since last year. We find ourselves again in the situation of improving net farm income. Our land values are increasing. Our exports have been up, and our foreign debt has been decreasing.

The organization is generally pleased with the 1985 Farm Act. We believe that it has helped push exports. It has helped farm income, and in general we think that it has been a good authorizing statute for the past 4 years, and we are now looking toward the development of a 1990 farm bill.

We realize the budget constraints that the Federal Government is under and that the subcommittee is under today; therefore, we will keep our comments rather general rather than commenting specifically on a great many line items within the USDA budget.

I had mentioned that our position has not changed over the past few years. We have supported a freeze in Federal spending at the total level. This means that we would be able to support the allocation in areas where if a program has attained its goal, funds from that program might be shifted to more urgent spending needs if necessary.

We would also like to point out that we have some concern about the current Gramm-Rudman-Hollings law and the provision that really means that by insulating many entitlement programs in a certain level of defense spending, agriculture being somewhat of a discretionary program, it tends to suffer more and come in for a disproportionate share of cuts when either you are talking about a budget resolution or a Gramm-Rudman-Hollings sequestration.

We have a few comments that we would like to make which we recognize are not within the jurisdiction of this subcommittee but they do concern agriculture, and they were proposed to some extent in the USDA budget this past year.

These provisions would take expending approximately $1.1 billion below the scheduled drop that we were seeing anyway, particularly in the CCC Farm Program area. Some of the changes which were not necessarily prescribed by the USDA but which, in fact, were suggested were 5-percent cuts in target prices; 5- to 7-percent cuts in nontargets; producer assessments of one sort or another; changes in the sugar program; and then finally decreasing the share of production upon which deficiency payments might be made.

Our comment at this time is that we believe that these kinds of changes would go to the very heart of the 1985 Farm Act and that we believe that they should not be dealt with through the budget process until the agriculture committees can have a chance to look at this particularly within the context of the next farm bill.

We believe very strongly that we may need to maintain support for the Export Enhancement Program, particularly during this time of the Uruguay Round of budget negotiations. We would suggest to the committee that perhaps the current level may be adequate unless there are some changes in the subsidy practices or if world market prices change with regard to the Export Enhancement Program.

We have two or three other things which I think you have heard from us before. Brucellosis eradication continues to be very important to us. That, in fact, was frozen at the 1989 level at least within the USDA budget. A number of livestock organizations and farm organizations such as the Farm Bureau are now reviewing an additional or expanded eradication program for brucellosis, and we would recommend that to the committee for its consideration.

These comments, I recognize, are very general. They are very brief, and they are somewhat repetitious from last year, but we do encourage you in your efforts because you know many of these programs certainly far better than we do and are more familiar with the spending levels necessary. We do believe, as the chairman of the House Agriculture Committee said, that agriculture perhaps is unfairly tagged as a major contributor to the Federal deficit when, in fact, we need to look at all spending areas within the Federal Government. In that way perhaps agriculture and some of the other discretionary areas would not be hit perhaps as hard as they are.

Senator BURDICK. Let me tell you something. Agriculture contributes 19 percent to the gross national product of this country, more than any other industry. So when you hear that statement, use those figures. It is proven.

Ms. RICE. We will do that.

Senator BURDICK. In other words, you think we have a pretty good farm bill, do you not?

Ms. RICE. We think we have a pretty good farm bill right now, and our organization along with many others is starting to get, as I said, the 1990 bill. We are starting our policy on it, but we think its general direction has been good.

Senator BURDICK. Well, thank you. We think so, too.

Ms. RICE. Thank you, Mr. Burdick.

Senator BURDICK. Does the Farm Bureau support only guaranteed loans for the Rural Electrification Administration?

Ms. RICE. With regard to our policy on REA, we do not come out specifically and say we think that all direct loans should be moved away from it, but we think the tendency at least with regard to Farmers Home Administration, we say that we believe that you should move toward a guaranteed program of operating in ownership loans.

With regard to REA our members have not specified that policy, but we can say that we do believe that that is one way to save money, is to move away from direct toward guaranteed, although we are not specifying that you need to have every single loan in the guaranteed category.

Senator **Burdick**. Do you have a recommended funding level for the Food and Drug Administration's Food Safety and Applied Nutrition Center activities?

Ms. **Rice**. No, sir; we do not. I am glad you reminded me of that because I did forget to mention it just a while ago.

We have been caught up, as the subcommittee has been recently, with issues of food safety, and we do not know the level that should be appropriated for it, but we are very concerned from the production standpoint that what happens in food safety, what happens in terms of production of consumers eventually affects the bottom line of our members.

We have only asked the subcommittee to look at funding levels for that and to, in your judgment, provide adequate funding for it.

Senator **Burdick**. Thank you very much.

Ms. **Rice**. Thank you, Mr. Burdick.

Senator **Burdick**. Next is the National Organization for Rare Disorders, Inc.: Ms. Abbey Meyers, Dr. Jess Thoene, and Dr. Howard Shapiro.

NATIONAL ORGANIZATION FOR RARE DISORDERS, INC.

STATEMENT OF DR. JESS THOENE, CHAIRMAN, NATIONAL COMMISSION ON ORPHAN DISEASES

ACCOMPANIED BY MARY ANN WILSON, BOARD OF DIRECTORS, NATIONAL ORGANIZATION FOR RARE DISORDERS AND NEUROFIBROMATOSIS, INC.

Dr. **Thoene**. Thank you, Mr. Chairman. I am Dr. Jess Thoene. I am chairman of the National Commission on Orphan Diseases and president of the National Organization for Rare Disorders.

Ms. Abbey Meyers and Dr. Shapiro are not able to be with us today due to the nature of the holiday.

I am also accompanied by Mrs. Mary Ann Wilson, also a member of the board of directors of the National Organization for Rare Disorders and Neurofibromatosis, Inc. and the mother of a child with a rare disorder.

Now our remarks have been submitted for the record, and if it is acceptable to you I will, therefore, summarize my remarks to save the committee's time and to make one particular point.

That point is that I would like to draw your, and the subcommittee's, attention to one very modest segment of the FDA appropriation; that is, the Orphan Products Grant Program.

The National Commission on Orphan Diseases, which I chaired, has just finished 2 years of deliberations attempting to assess the needs of individuals in our Nation affected by rare disorders. What we found is that there are a great number of people affected with rare disorders, between 10 and 20 million, and that the products available to alleviate their suffering and to cure these disorders are very few in number.

The Orphan Products Grant Program, run through the FDA Bureau of Orphan Products, is a small portion of the budget but it is the only Federal program designed to discover and develop new treatments for rare disorders.

We urge that this committee support for the first time an appropriation equal to the authorization, and for fiscal year 1990 that would be $14 million.

As you may know, orphan diseases are defined in law as diseases which affect less than 200,000 persons in the United States. This designation is because we have been informed by the drug industry that there is no likelihood of recouping the investment necessary to bring a product to market if it is intended for a population that small.

Some form of subsidy seems essential if there will be development of products for patients in these rare disease populations.

The National Commission on Orphan Diseases report shows that there are approximately 5,000 known rare diseases. The current appropriations level at $5 million results in an allocation of $1,000 per year per rare disease.

The Pharmaceutical Manufacturers Association estimates it costs about $70 million to develop one new treatment. Hence, simple arithmetic shows us that it will be 70,000 years before we have one new treatment for each now known rare disease. Currently, that rate of progress is unacceptable.

Two other illustrations I would like to provide you for the necessity to appropriate the full $14 million for this program. One is the case of cystinosis. I am also a researcher at the University of Michigan studying a rare disease, cystinosis.

We have found a treatment that is very effective in averting the otherwise uniform renal failure that occurs in these children by age 10 years. The cost of this drug to treat all the known children in North America is $50,000. There are 100 children known.

To provide either a kidney transplant or renal dialysis for each child also costs $50,000, but that is per child. If this drug were approved and on the market, we would realize a savings of 100 to 1 in the dollars invested for the care of this one orphan disease.

To echo what you heard just prior to our testimony, urea cycle disorder is another disease which affects the urea cycle in man and is uniformly fatal by age 5 to 10 days of life. A drug is known that permits these children to survive indefinitely. This data has been available to the medical community for several years now. The FDA required 2 years to approve this product even though the startling evidence was there that these children who always died before ever going home from the nursery were now alive and growing up.

This is not to indict the FDA but merely to show that the lack of resources present in that agency is impeding the delivery of available health care to the American public.

The orphan disease community has been very patient, Mr. Chairman, and we have stood by each year as we were told that budget cuts were necessary and that other priorities had to take precedence. Yet now we look at the AIDS program, at one point $6 billion, and wonder why $15 million, a very modest amount, cannot be found to benefit 5,000 rare diseases.

I should point out that this is really a problem in perception because we must bear in mind that because we know in one way or another all of us could contract AIDS, so all the rare diseases of a genetic basis are also a potential hazard to us, either ourselves, like

Huntington's disease which can appear later in life, or through our children because we are all carriers of five to six catastrophic genes which if present also in our spouse can produce a disastrous rare disease in our children.

The current request is modest, but it will bear great benefit in the reduction of medical costs and the relief of human suffering. So again we urge your support this year for the full authorization of $14 million for the FDA Orphan Grant Program in fiscal year 1990.

We thank you very much for your past support and your indulgence this morning.

Senator BURDICK. Thank you.

Dr. Thoene, you mentioned that the greatest portion of the $640 million devoted to rare disease research supports basic research.

What is the total funding amount available for basic research?

Dr. THOENE. Yes, sir; that is a quote from the report of the National Commission on Orphan Diseases. What we are concerned about there is the perception that there are significant amounts of money devoted through NIH to research which impacts on rare diseases. We understand that about 60 percent of NIH funding is devoted clearly to basic research which, though important, has no direct impact on the development of treatment.

Senator BURDICK. Well, should a greater portion of these funds be used for applied research?

Dr. THOENE. That is a very difficult question, and I am not trying to evade it. I think that the rare disease community understands the basic research is essential to the development of new knowledge for treatment.

What we really seek are additional funds to translate the data that we now have in understanding the basic physiology of disease to treatment. We think there is a gap there. I do not think we would favor reducing the proportion devoted to basic research, but rather we seek new moneys to enhance the translation.

Senator BURDICK. Do you find that the reviews for new orphan drug therapy using previously approved chemical compounds are as lengthy as new drug applications?

Dr. THOENE. The question is an important one, and we do not have enough data to really address that. What you are really asking is we have labeled indications, and then we have effective uses of marketed compounds or what are called nonlabeled indications.

I think the problem there is that the sponsor of the labeled drug in question is not submitting to the FDA the information required to add the orphan indication to the label. If I have been unclear, I will expand on it, but what I am really saying is I see that problem as not a regulatory problem but a lack of incentive in the industry to do so because there is not really very much potential return on the investment and effort required.

Senator BURDICK. You say there is a considerable number of these rare diseases. Have we had enough research in the past to know what kind of treatment to apply now or what percentage of them can be treated successfully?

Dr. THOENE. Yes, sir; we have about 276 designated orphan drugs right now, of which only 30 have been approved for marketing. So compare that to the 5,000 known rare diseases. I would have to say we have a long way to go.

The opportunity to bring to market the existing 276 which are designated orphans but not yet approved is something that will bring relief to a large number of orphan disease patients.

Senator **Burdick**. It seems to me there is a lot of research work yet to be done.

Dr. **Thoene**. That is quite true, sir.

Senator **Burdick**. Thank you.

Dr. **Thoene**. Thank you very much.

Senator **Burdick**. Our next witness is the U.S. Agricultural Export Development Council, Mr. Don Sherrill, chairman, U.S. Wheat Associates.

U.S. Agricultural Export Development Council

STATEMENT OF DON SHERRILL, CHAIRMAN, U.S. WHEAT ASSOCIATES

Mr. **Sherrill**. Good morning, Mr. Chairman. It is nice to be here on such a nice morning.

I am Don Sherrill. I am a wheat farmer, and I just happen to be chairman of U.S. Wheat Associates.

Senator **Burdick**. Where are you from?

Mr. **Sherrill**. From Burbank, OK, sir.

Senator **Burdick**. When is it going to rain?

Mr. **Sherrill**. We are hoping. Every little bit helps, and there has been a little bit of moisture out there but it has not been widespread enough, sir.

Senator **Burdick**. We have been hit awfully hard in North Dakota.

Mr. **Sherrill**. Yes, sir; you had a tremendous drought last year.

I am testifying on behalf of the U.S. Agricultural Export Development Council, which is made up of 76 agricultural groups that work with USDA to develop overseas markets. Our members believe exports are essential to the health of the food and fiber economy. Exports generate foreign exchange, improve producer income, provide jobs for Americans and raise the diet levels around the world.

We believe America's well-being depends on the bounty of its land. If agriculture prospers, the Nation will prosper. Agriculture will only prosper if we can use our production resources to sell into global markets. This is why promoting export sales is one of USDA's most important jobs.

I would, therefore, like to talk about USDA's international programs. We believe these programs are tremendously important because they help U.S. producers compete in world markets, they increase our exports, and they develop long-term demand for our products.

We urge the subcommittee to recommend $115 million for the foreign agricultural service in 1990. The program FAS administers is working as shown by the big increases in both the volume and the value of U.S. foreign exports. Now more than ever, funding levels should be maintained.

FAS has been given many new responsibilities under the 1985 farm bill, including new programs and older programs that were expanded. The ominous trade bill last year added even more responsibilities, and Congress recognized the need for increased resources authorizing FAS staffing at a minimum of 900 people. We believe Congress should fund these positions, that it should recognize the budget strains on FAS operations caused by the lower dollars, and that it should fully fund the transfer of $3.2 million from the State Department budget to cover administrative costs in embassies.

All these factors and others lead us to recommend the $115 million funding level I mentioned earlier. At this time of critical trade negotiations, it is especially important to avoid sending the wrong signals to our international competitors. We urge the subcommittee, therefore, to stand behind FAS in our Government's export expansion programs.

Besides FAS itself, there are other important export initiatives. The GSM-102 and 103 credit guarantee programs help move commercial exports, and demand for these guarantees has increased with the resurgence of our export sales. We think, therefore, their funding levels should be reviewed.

When foreign subsidies lock our producers out of key markets, more than just credit is needed. American farmers have been fortunate to have help from the Export Enhancement Program which we strongly urge to be funded at the $1 billion level recommended in the administration's budget.

Another important source of competitiveness has been the targeted Export Assistance Program. We believe it should be funded at the $325 million mandated in the 1985 farm bill.

Finally, America has always been generous with its food aid for developing countries, and we urge strong support of Public Law 480 along with greater emphasis on market development under title 1 of this program.

Mr. Chairman, American producers know they must increase their own commitment to market development because creating sustainable market demand is the key to ensuring a more profitable agriculture. In the last year, five wheat-producing States voted to freeze their assessments to support the market development and research. The cotton industry has committed an additional $1.5 million to overseas markets. The red meat industry has allocated $3.4 million as its contribution to market promotion around the world.

But producers also believe that a partnership with the FAS is important. For that partnership to succeed, we need continued support for the whole range of export programs.

I firmly believe, Mr. Chairman, that you just cannot separate the health of the American economy from the bounty of our land resources. That is where wealth comes from. A strong agriculture will mean a strong America, and agriculture will prosper if we do what is needed to expand expert sales.

Thank you very much, Mr. Chairman.

Senator BURDICK. Thank you.

Well, why is this extra $15 million needed?

Mr. SHERRILL. We think that we are making great progress, Senator, and we need to continue the effort, particularly along with the GATT negotiations going on. We have to be strong. I think that we cannot negotiate from a position of weakness.

I think it is very important that we have total commitment to letting our system work and to play on a level playing field.

Senator **Burdick**. What is your opinion of the slowdown in the EPP rules recently?

Mr. **Sherrill**. Of course, as a producer, sir, I would like to see this thing move a little more quickly, I guess. We have had a change of administration, as you know, and we have budgetary concerns. We have problems with not having all the people in place to operate the program. We have a very tight line that we have to work with this program because if we dry up the market, sometimes when you lose the prime in the well it is pretty hard to get the pump working again.

So I have some concerns that I would like to see it used a little more aggressively, but we understand also that we have to work within the parameters permitted.

Senator **Burdick**. Thank you very much.

Our next witness is Mr. Bob Bergland, executive vice president and general manager of the National Rural Electric Cooperative Association.

National Rural Electric Cooperative

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER

Mr. **Bergland**. Thank you very much, Mr. Chairman and members of the committee. I have a detailed statement I would like to submit for the record and just briefly summarize.

We are recommending basically that the appropriations levels for the lending program for the rural electric cooperatives be maintained at last year's levels. We know that is a modest reduction because of inflation, but given the constraints in the budget we think that is entirely appropriate.

We are seeing a backlog at the REA. The last 7 to 8 years have been really tough for about 300 systems in North Dakota and Texas and places in between where the local economy has just died and the co-ops have as a result sort of gone underground. They have stopped doing anything. They are not building, not maintaining. They have not had to borrow money to add to anything. They are just marking time.

Now the economy in some of those places is starting to show signs of life, particularly in the oil patch and some of the mining areas. Farming is still not good, but there are some signs it might be getting better.

As those systems in those States up the country from the Mississippi to the Rockies start to heal, they are going to be needing some credit support, and the backlog will no doubt increase from the current level. That is a problem we need to reckon with, but for now we suggest a level of last year's amounts.

We are also calling the public's attention to a rather unusual quirk in the budget law. Last year, for example, the cooperatives actually borrowed $780 million both for the distribution and the transmission and the generation system and repaid nearly $5 billion. Two billion dollars of that was in the early repayment or the refinancing of some of the distress debt that you were so helpful in accommodating, but that still leaves over $2 billion that was returned to the Treasury from the distribution cooperatives primarily for which there is no recognition or credit given.

I do not know that it is within the purview of this committee to deal with that matter, but there is the matter of accountability. We are charged for loans made and no credit given for loans repaid. We returned substantial sums of money to the U.S. Treasury last year both in interest and principal. We are pleased to say that over the more than 50 years of rural electric program there have been only two small writeoffs, two small losses, and they were early in the program.

We have had some distress in recent years, but we worked with the REA to reschedule some debt, and none of these powerplant defaults have been written off as a loss. We are doing everything we can to pay them. We need time and terms. I am pleased to say that the REA has established a workout team that has been very helpful to our members in trying to deal with the business of default. Most of the problems arise in places where the economy collapsed and they simply could not sell the electric power they thought they were going to sell.

So we are working these things out case by case, and there will be no charges against the revolving fund, at least not yet; and we hope that none occur.

The system is fragile. We are dealing with the sparsely settled parts of the United States. If the administration's recommendations were observed—namely with eliminating the function of the REA—the system would start disintegrating on the fringes. It would not collapse at once, and it would not collapse in whole places, but it would start to disintegrate in the areas that are the most remote.

We have built a carefully crafted national rural electric program that does work at almost no cost to the U.S. taxpayers, and we know that this committee regards the rural electric program as important, and we strongly recommend it be continued at last year's levels.

In addition to the rural electric component, we are taking another very hard, critical look at rural development to see what more the rural electric cooperatives can do, and I am pleased to report that the response from the cooperatives toward this new mission is encouraging.

We are cooperating with another committee of the Senate in dealing with the question of rural development and how we might better leverage the energies that these local cooperative leaders have teaming up with the State, Federal, and local governments to do a more effective job in bringing jobs to rural places. All things being equal, people would rather live in a rural place than a city place but cannot unless they can find work. So we are working with another committee in that regard, and progress is being made.

Thank you very much, Mr. Chairman.

Senator **Burdick**. Thank you.

Would you expound further on your statement that REA serves many more functions than that of a banker for the committee?

Mr. **Bergland**. They provide technical assistance and engineering support. For example, in the last tornado season we had systems blown apart. That is a risk we have in rural places. These tornadoes, these hurricanes come in, and they just make a mess of these rural systems because we have so many miles of line that are exposed. When that happens, we are organized in a way that repair crews from miles and miles away can come in with their trucks and equipment and start to rebuild the system.

The REA has a standard engineering plan that every system must use. It represents the state of the art; no junk poles, no inferior quality in the equipment used. It is all very, very good. Every system is engineered like every other system, so when a tornado destroys a system and the crews come in from all around the State, they land on the run. They know exactly what needs to be done because it is exactly like the system with which they have experience.

The benefits to us in the standardization are enormous. REA does a good job in that particular matter. For example, they also provide good support in helping the systems design financial planning and counseling that these small systems cannot afford on their own. They are a good utility lender, Mr. Chairman.

We have criticized the REA for not being as aggressive and forthright in its discharge of its duties, but they do a good job in these and other technical arenas. They are also able to help us in planning power supplies. We are expecting that with the rise in oil prices, we are going to see once an increase in the demand for electric power. We saw that last time the oil prices climbed. We are going to see it again.

Right now, we are saying we do not need more powerplants, but we know we do. It is not a matter of if we need them, it is when, where and what size. REA can be enormously helpful to our system in helping us with these long-range forecasts that an individual cooperative simply cannot do on its own. So they provide a variety of services in addition to the function of lending money. That really is indispensable to the integrity and the health and welfare of these 1,000 cooperatives.

Senator **Burdick**. What role can REA play in the key rural development policy focus announced recently by the Bush administration?

Mr. **Bergland**. The President announced yesterday he is going to create a Cabinet level committee on rural development to see what can be done. Secretary Yeutter called me and, I am sure, many others and asked our support in a technical way, and we assured the Secretary that we would be delighted to work with this task force to determine how we can pool our resources, public and private.

We know that development is not something that can be done by the Federal Government alone. We know that local private organizations such as the Rural Electric Cooperative cannot do this on their own, either. It requires both the State, Federal, and local initiatives. So one of the matters we are looking into has to do with financing, new business, new expansion, new starts occasionally but mainly dealing with existing industry. We need some kind of a lending facility that will be able to take an equity position in building local industry.

For example, you and your colleagues were enormously helpful in getting the law amended to allow the cooperatives to use up to 15 percent of their own resources in development activity. This in theory has made available $2 or $3 billion for the development work. The problem we run into is that we had an experience recently where there was a machine shop making a part for a truck company, and they needed to modernize. The cost of modernization was $50,000 or something.

The bank was not very interested in it because there was some risk involved. There were also many jobs, I think 40 or so, involved, and the co-op was asked if they could help.

The co-op said, well, we are not in the lending business. We know it is important. Your industry is important, but we do not know how to make loans to you. We are not lenders. We cannot supervise the machine shop business.

What we are recommending is that there be some kind of a business revolving fund organized where cooperatives and banks and others could put money in and leverage that to borrow money in the private market to help provide equity money and mortgage money for these small businesses.

I mean, General Motors can take care of itself. It is when we start getting into these $40,000, $50,000, $80,000 loans we get in trouble. Rural banks are often unable to accommodate them because it exceeds their lending limits, and so some kind of a rural business investment corporation is necessary. The Senate Agriculture Committee is looking at this. We are going to work with the administration on this and other matters.

The rural electric cooperative role in these things is really very important, and its main function is leadership and organizing the local community.

In addition to lending for business purposes, we are taking another careful examination of what we can do to help rural water and sewer systems. The State and Federal authorities on drinking water quality and waste water management are getting tougher and tougher. The cities can handle it because they can issue tax-free municipal bonds. When you get out in the country, it is a whole different thing.

We believe that that program needs to be reexamined very carefully, and the cooperatives can play a key role not in taking the systems over but in helping them perform their responsibility to provide the community with clean water and a safe way of disposing of waste and material.

We have had a lot of trouble in communities where particularly in industrial development they simply have no way of handling the waste material and the industrial development program came to a stop.

Senator **Burdick**. Mr. Bergland, there is a gentleman who testified here yesterday, and he seemed to acknowledge that the REA had done some good over the past years but the time has come that we ought to get out of the loan business. He recommended the elimination of direct and guaranteed loans, zero out.

Do you have any comment about that?

Mr. **Bergland**. Well, I think that is a big mistake. They will make the same mistake in REA as was made with the savings and loans and the farm credit system. Cutting loose from the protective support of the Federal Government and going on their own, I guarantee that if the REA came to an end that within a matter of a short time some of our systems, the most vulnerable among them, will start to disintegrate.

No one is going to let these lights go out. I mean, I know that if we had to shut down electricity to the Alaskan Indian villages because they could not pay due to poverty, which is all over up there, the public would be indignant in saying what is going on here. So right away somebody would be under pressure to continue to supply those electric light services.

We are saying that taking the Rural Electric Program as a whole, taking all borrowers and all the risk and all the trouble we have, this has been a good program at almost no cost to the Treasury. We say, "If it ain't broke, don't fix it."

Senator **Burdick**. Well, this has been tried a couple of years before. It was not successful, and I doubt it will be successful again this time.

Mr. **Bergland**. I think you are right, Mr. Chairman, thanks to you.

Senator **Burdick**. Well, we cannot think of any tough questions to ask you.

Mr. **Bergland**. Thank you, Mr. Chairman. If you think of any, send us a letter.

Senator **Burdick**. Thank you, sir.

Our next witness will be John F. O'Neal, general counsel of the National Rural Telecom Association.

National Rural Telecom Association

STATEMENT OF JOHN F. O'NEAL, GENERAL COUNSEL

Mr. **O'Neal**. Thank you, Mr. Chairman. It is a pleasure to be here again this year before the committee and to follow my good friend, Bob Bergland. We agree wholeheartedly with his remarks and with his assessment of the REA program and its current needs.

For the record, my name is John O'Neal. I am general counsel of the National Rural Telecom Association. NRTA is comprised of commercial telephone companies that borrow their capital needs from the Rural Electrification Administration to extend and modernize telephone service in rural areas.

Approximately three-fourths of the 1,000 systems that borrow from REA are commercial telephone companies. REA borrowers serve 5.7 million subscribers in 46 States. In accepting loan funds, the systems assume an obligation under the act to serve the widest practical number of rural users within their service territories.

Mr. Chairman, continuation of a strong REA telephone program is very important to rural America. The need for long-term affordable capital for the systems may even be greater today than ever before. Much of the telephone plant in rural America was installed in the early 1950's and will soon be due for replacement.

Technological advances and customer demands make it imperative that these companies upgrade their systems to keep pace with improvements and provide the latest available technology to their subscribers. However, because of continuing budget constraints NRTA is recommending again this year that loan levels be frozen at last year's level for all three telephone programs.

The theme of President Bush's first budget is building a better America, but apparently he intends to attempt to accomplish his goal without the REA program since his proposals would severely curtail and phase out REA as we know it. He would eliminate insured and 100 percent guaranteed loans in their entirety and partially substitute 70 percent guarantees of private sector loans in the amount of only $100 million for both telephone programs.

The administration is also recommending severely curtailed rural telephone bank lending levels.

Mr. Chairman, there are no new initiatives or any new thinking here. Most of these proposals had been made in previous Congresses, as you just pointed out, and rejected. We oppose them because we know that, if adopted, rural telephone rates would increase further, and service levels would surely deteriorate.

As of January 31 of this year, there were $437.5 million in pending loan applications from 88 borrowers in the telephone program. Of these applications, $74 million were received from 29 borrowers during the current fiscal year.

I know that you and the committee will agree that these figures amply demonstrate the ongoing need for this program at current levels.

Critics of REA argue that the need for the program is over because borrowers have the ability to borrow from private sources, but what are the facts? Because of the relative small size of these loans and the inability of borrowers to meet private market credit standards, individual borrowers could not go directly to the private credit markets for capital.

Even those few borrowers which could obtain credit there would find the terms extremely burdensome, if not prohibitive. Neither would there be much hope for the great majority of borrowers in the private banking system. Most banks or other lenders, as Mr. Bergland just pointed out, either will not or cannot make long-term loans that are necessary for a telco plant investment. Banks typically will lend for no more than 15 years, in contrast to REA's 35-year loans. Of course, the interest rates would be prohibitive if these loans would be made at all.

Who would pay for these increased costs? As utilities, whose rates are based upon their costs, increases in these costs would necessarily have to be borne by rural ratepayers who are already burdened with extremely high rates for telephone service.

In 1981 Congress authorized an additional $300 million in capital for the rural telephone bank in 10 annual increments. We are now nearing the end of that capitalization cycle. Each segment is vital to the full capitalization of the bank. The rural telephone bank is a cornerstone of financing for REA telephone borrowers for the future, and fulfillment of the bank's capital structure is essential.

We are asking again this year, therefore, that the committee continue the appropriation of $28.7 million for the Government purchase of class A stock in the rural telephone bank.

Last year's act included a provision mandating an additional $500 million in penalty-free prepayments of high-rate Federal financing bank loans be permitted. The President's budget contemplates receipt during this fiscal year of these revenues. We are now halfway through this fiscal year, however, and thus far regulations have not been promulgated and, of course, no prepayments have been permitted.

We understand the Treasury is blocking the issuance of regulations by the Agriculture Department by seeking to impose burdensome eligibility requirements designed to make prepayments less attractive. If Treasury continues its opposition, which is contrary to both the underlying statute and accompanying legislative history, this anticipated revenue may not be realized, thus exacerbating the budget deficit in real terms by up to $0.5 billion.

Mr. Chairman, the REA program continues to face its greatest challenges; however, it withstands these annual assaults because it is a sound Federal program that works, and it is needed more today than ever before. Rate pressures in rural areas are already burdensome. Without the credit assistance provided by REA, even greater pressure would exist for rate increases.

As I know you and the committee recognize, the value of this assistance to rural ratepayers continues to far outweigh the costs. Thanks to the efforts of this committee over the years, the program remains strong, and thanks to your efforts a substantial impediment to loan advances and approvals has been eliminated, REA's general funds restrictions. We hope and recommend that the committee extend the general funds prohibition in the fiscal year 1990 bill.

We also appreciate the inclusion in last year's act of a provision which precludes REA from attempting to regulate the order of sequence of advances to borrowers under approved loans and request that this provision also be included in this year's bill.

Thank you very much again for the opportunity to appear here and to present our views concerning this important program which is as vital today as it was in 1949 when it was enacted.

Senator BURDICK. Thank you very much.

Mr. O'Neal, how realistic is it to expect $500 million in prepayment revenues to be collected if the final regulations are not issued in the very near future?

Mr. O'NEAL. I believe it is not realistic at all, Mr. Chairman. I think that borrowers will require some time for them to make arrangements to make these prepayments, and, of course, the requirements of the Administrative Procedures Act would require that notice and public opportunity for public hearing be conducted, which would take at least 30 to 60 days. You could well be into the late summer before any regulations were finally adopted, even if they were promulgated today.

So I think that as time goes by here within the next few weeks if this log jam is not broken we may not be able to realize those prepayments.

Of course, another aggravating factor is the fact that interest rates continue to increase, and to the extent that those interest rates increase to levels which would make the prepayments not economically feasible, then we may not see them for that reason.

So I think that it is important that these regulations be issued as soon as possible if we are going to achieve that revenue this year.

Senator **Burdick**. What effect is it having or may it have on the rural telephone companies?

Mr. **O'Neal**. Well, certainly the fact that the companies function based upon their cost, and to the extent that you can reduce those costs, which this would substantially do, I think you would see that translated into lower costs for providing rural telephone service, and it would translate directly to rural ratepayers.

So I think it would be very beneficial not only to the companies but to the ratepayers.

Senator **Burdick**. How much outstanding loan dollars would likely be prepaid?

Mr. **O'Neal**. I believe it is somewhere in the neighborhood of about $150 million, which is the amount that the committee allocated in this year's appropriations bill for that purpose. I believe that should clean up just about all of the estimated demand.

Senator **Burdick**. Thank you.

Mr. **O'Neal**. Thank you, sir.

Senator **Burdick**. Our next witness is Mr. Jack Bentley, chairman of the REA Borrowers Committee of the U.S. Telephone Association.

U.S. TELEPHONE ASSOCIATION

STATEMENT OF JACK BENTLEY, CHAIRMAN, REA BORROWERS COMMITTEE

Mr. **Bentley**. Mr. Chairman, thank you for the opportunity to come and discuss a matter with you which is most important to the borrowers committee and to the REA program.

I am Jack L. Bentley, executive vice president of Western New Mexico Telephone Co. As chairman of the REA Borrowers Committee of the U.S. Telephone Association [USTA] I present this testimony on behalf of the approximately 1,100 member companies of USTA and the subscribers they serve.

The targeted assistance offered by a strong and viable REA is essential to maintain a healthy rural telephone industry. That contributes to the provision of universal service. We appreciate the strong support this committee has provided for the REA telephone program and look forward to a continued REA program for the future.

Based upon extensive member experience with the program, USTA recommends that Congress adopt the following for the continuation of a strong REA telephone program:

Maintain the fiscal year 1990 telephone loan program authorization at the fiscal year 1989 levels;

Continue the important task of fully capitalizing the rural telephone bank;

Set the REA administrative budget at a level that will ensure sufficient equipment and personnel;

Continue the congressional prohibition on REA general funds restriction;

Continue the congressional prohibition on REA which prevents regulation of the sequence of events of loan funds;

Encourage REA to eliminate unnecessary barriers to loan advances;

Encourage REA to modify its dividend policy; and

Ensure that financing is provided to achieve all act purposes.

The telephone industry is undergoing a major change in technology as well as the atmosphere of the regulatory structure; therefore, programs to help rural Americans to cope with these changes should not be weakened. Rural utilities generally experience higher costs to serve customers and thus need more long-term capital just to meet universal service obligations.

Rural subscribers demand and deserve a quality of service that is equivalent to that received by urban customers. Consequently, they are willing to shoulder a greater share of the expense similar to those of the urban subscribers.

It is essential that REA borrowers invest in new technology to satisfy this demand. The REA telephone program targets assistance to rural subscribers in two ways. First, it lends for the extension and improvement of facilities. Second, the relatively low cost of those funds enables rural telephone systems to counter unusually high cost of service.

After all, offering a telephone line to a household at high rates that renders service unaffordable could effectively be the same as having no telephone service at all.

The REA program is a unique voluntary public/private partnership that directly benefits rural residents. Telephone companies and cooperatives act as conduits for service benefits between the Federal Government and rural subscribers, REA's intended beneficiaries. The Government's contribution is enhanced by the equity, management expertise, and dedication of local telephone systems.

Once again, last year loan advances in the telephone program fell short of loan approvals. Even though $193 million in REA loans were approved last year, only $175 million in funds were actually advanced. Over $1.5 billion in approved REA and RTB loans remain unadvanced. Thus, the dollars that were actually approved have not begun to flow into improved basic facilities.

Some funds remain unadvanced because of normal regulatory and construction delays, but REA policies can also discourage advances. Without actual advances, the promise of the REA program fails. Funds do not get to borrowers. Funds are not created. Plant is not built, and subscribers are not served.

Congress should encourage REA to eliminate all policies that hinder the advance of approved loan funds. The REA dividend policy unreasonably restricts the amount of dividends that borrowers can pay to stockholders. The policy leads to overcapitalization of borrowers, unnecessarily increasing their revenue requirement and therefore subscriber rates.

Congress should require that REA modify its dividend policy consistent with loan security. Similarly, REA has refused to lend for the construction of particular types of telephone plant which are permitted by the Rural Electrification Act. Those polices should be eliminated, especially since the REA insured the plan and the Rural Telephone Bank did not meet the minimum loan levels last year.

Good telephone service is essential to America's rural foundations and yields enormous returns to the national economy by stimulating production, reducing the trade deficit, generating additional tax revenues and increasing employment.

Now with many rural areas enduring a severe financial hardship and profound economic restructuring, REA is needed more than ever. REA can be the model rural development program it was first envisioned to be. Congress should authorize adequate loan levels, encourage REA to abandon policies that improperly limit the benefits of the REA program and, most importantly, retain the essential partnership between the Government, telephone companies and consumers.

I wish to thank you, Mr. Chairman, for this opportunity to present our views.

Senator BURDICK. Thank you.

Do you know the average cost differential between rural and urban telephone service?

Mr. BENTLEY. Mr. Chairman, I do not know the exact cost differential on that. I would be happy to get the information and furnish it to the committee.

Senator BURDICK. If privatization were mandated, what would the cost of telephone service to rural consumers increase?

Maybe that is the same question.

Mr. BENTLEY. It would increase dramatically. As to an exact figure, I do not have that today, but because of the interest rates that the rural companies would be looking at to go to regular commercial banks, we are looking at rates in the 2- and 5-percent program for most of our smaller companies, and if we go to a bank we are looking at interest rates in the 12- to 14-percent bracket. Consequently, that is going to have a tremendous effect on rural rates.

Senator BURDICK. Thank you.

Mr. BENTLEY. Thank you.

Senator BURDICK. Our next witness will be Ms. Margaret Goatcher, Organization for the Protection and Advancement of Small Telephone Companies.

ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES

STATEMENT OF MARGARET GOATCHER, PRESIDENT, CIMARRON TELEPHONE CO., MANNFORD, OK

Ms. GOATCHER. Good morning, Mr. Chairman. I appreciate this opportunity to come before you to discuss the fiscal year 1990 budget and also the programs proposed for the Rural Electrification Administration.

I am Margaret Goatcher, president of Cimarron Telephone Co. in Mannford, OK, and also first vice president of OPASTCO, the Organization for the Protection and Advancement of Small Telephone Companies, a national association representing about 400 telephone companies and cooperatives. Our members provide telephone service to nearly 1.5 million customers in rural America, and of our members 70 percent are REA or RTB borrowers.

During the recent hearing, Mr. Chairman, your colleagues in the House emphasized that the REA program is for the people. My customers and those of other small telephone systems are those people.

A strong REA program is vital to rural America. Loan levels must be maintained for the REA, RTB, and FFB programs, and there must be continued capitalization for the Rural Telephone Bank. Other proposals which seek to virtually eliminate the program cannot be accepted.

My company has been in the REA program since 1957. We have had five REA loans and five RTB loans, and I can honestly say that without the REA financing and the technical assistance, my company could not have achieved the level of facilities and the quality of service that we have today.

The job is not done. There are still citizens who live in areas so remote that they do not have telephone service, and many others are still served by poor facilities that are extremely costly to upgrade.

Many of the companies serving these areas require REA assistance to upgrade and to modernize their plants and to bring service to additional customers. Also, we have entered a time when advanced services beyond basic voice service are becoming an expected and needed part of our customers' telecommunication service to bring the information age to rural America.

Telephone companies serving these rural areas must continue to receive and make efficient use of REA funds. Without continued REA support as technology and new services develop it will not be long until the widening gap between the rural and the urban telecommunications services is reminiscent of the days when telephone service in rural America lagged far behind that in urban areas.

The implication of needing information services extends beyond the current population in rural areas. Telecommunication plays a crucial role in rural development, an issue which is of great importance to all of us today. To attract businesses, rural America must have the telecommunications services that these businesses desire.

REA does acknowledge that some weaker borrowers probably cannot survive without the REA program, but according to recent statements REA's solution is encouraging these companies to merge with larger borrowers. This eliminates those borrowers who need the program the most.

REA's suggestion that such companies should merge seeks to dismantle the backbone of telecommunication services in rural America which REA helped to create. Also, such actions likely would shift jobs away from rural communities where there is a need to create jobs and to encourage economic developments.

The loss of any small company is a loss to rural America. Sufficient funding must be maintained not only for the REA lending programs but also for adequate staffing of the agency. If small companies today are to provide the services which customers want and which could foster economic development in rural areas, they must have the expertise and the new technologies and know how to employ them efficiently. REA's support is needed to meet this end.

In addition to the proposed cuts in funding levels and staff years, we also are concerned about several other administration plans for REA, and I will quickly list these proposals and be happy to expand upon them.

We oppose the implementation of a 1-percent loan origination fee.

We oppose the requirement that a borrower prepaying a loan would be prohibited from returning to the agency for additional financing.

We oppose the reinstitution of REA's general funds policy and its policy of regulating the order in which borrowers with more than one loan draw down their funds.

REA is one of the great achievements of our Government. It is an excellent program which continues to serve rural America well. It is not a grant program. The loans are paid back in full, and the yearly net outlay by the Government is insignificant. To my knowledge, there has never been a default on a telephone loan.

The citizens of rural America need the REA program, and I urge the subcommittee to reject the administration's proposals and to maintain current lending levels for a healthy REA program.

We appreciate the subcommittee's past efforts in support of REA and look forward to working with you to create a strong future for REA.

Thank you, Mr. Chairman.

Senator BURDICK. Thank you.

Without REA financing, do you believe that it would be possible for rural communities to keep pace with the advanced telecommunications systems in urban areas?

Ms. GOATCHER. I think it would be very hard to, sir, because I believe we have small companies in these rural areas that depend on the lower interest rates to upgrade their areas that are costly. We know that it costs more to provide service in rural areas than it does in the urban areas, and so I feel that the REA program is very important, and I believe there are many of them that could not.

Senator BURDICK. How would this impact on rural enterprise and residential development?

Ms. GOATCHER. Without the REA program, sir?

Senator BURDICK. Yes.

Ms. GOATCHER. I believe that with the technology that is coming along, we have to keep up with that in order to provide the services to the residential customers and to the businesses, and if we do not have that service available for them, they are not going to move into our area and, therefore, there is not going to be that rural development that we feel is necessary.

Senator BURDICK. Thank you very much.

Ms. GOATCHER. You are welcome. Thank you, sir.

Senator BURDICK. Our next witness is Ms. Aliceann Wholbruck.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

STATEMENT OF ALICEANN WHOLBRUCK, EXECUTIVE DIRECTOR

Ms. WHOLBRUCK. Thank you, Mr. Chairman. I am Aliceann Wholbruck, executive director of the National Association of Development Organizations. I want to thank you for inviting us to appear at these hearings today and to transmit to you on behalf of our members our appreciation for your steadfast support over many years for rural economic development programs.

The National Association of Development Organizations [NADO] was founded in 1967 to maintain and create jobs in small metropolitan and rural communities. NADO's members are multicounty planning and development organizations. These public purpose institutions provide development professionals who work with local governments in the private sector to promote business, community and economic development.

NADO is the national grassroots network dedicated to improving economic opportunities and the quality of life for all rural Americans. All too often, rural America is equated with farming. Solutions to rural problems are assumed to revolve around crop subsidies. In reality, over 60 percent of farm families' incomes are from nonagricultural sources. So rural America is far more than farmland.

The nonfarm rural economy has suffered through its share of troubles during the 1980's. In 1987 rural unemployment reached 7.9 percent, a full two percentage points higher than the national average. Much of rural America's infrastructure is inadequate. Public investment in the maintenance and construction of roads, bridges, and other public works has declined drastically in the last decade.

Federal grant and loan programs which are the most important for rural community and economic development have been cut by 74 percent since 1980, and we attached a chart to our statement showing this decline in all of the programs that we think are important.

NADO believes in public investment as a way to encourage and retain private investment. Government programs must be a part of the solution to rural economic problems. Senators Leahy and Lugar, the chairman and ranking member of the Senate Agriculture Committee, have requested $500 million be set aside in the fiscal year 1990 budget for new rural development initiatives, and we are hopeful that this has been provided. We believe that rural America deserves at least this amount in Federal investment.

Within the Farmers Home Administration, authorization exists to fund strategic planning, infrastructure improvement, and small business assistance throughout rural America. The institutional infrastructure to implement rural development programs is already in place, but what is lacking is adequate resources.

The Consolidated Farm and Rural Development Act includes authorization for development through farmers home programs, and we would request that these be funded. Let me run through a list quickly.

Section 111 planning and technical assistance grants which have not been funded since 1981 should be provided $15 million so that professional expertise is available to rural areas.

Water and waste disposal planning programs should be funded at $15 million with priority given to solid waste management planning. As you well know, in many rural areas the lack of a careful solid waste management is causing us a lot of trouble.

Water and waste facility loans should be funded at $700 million, which is a return to the 1980 level.

Water and waste facility grants should be increased to $200 million.

Business and industry development grants should be funded at $40 million with at least one-half allocated to the capitalization of revolving loan funds to provide capital in rural areas.

Rural enterprise loans for small businesses should be funded at $15 million.

The intermediary relending program for small business in rural areas should remain at $14 million.

I would just like to give you one example of why we think strategic planning is necessary in rural areas. In the last 2 years, 87 rural hospitals have closed, and many more are in danger. Rather than lose all of the hospitals in a region, we believe it makes sense to get rural communities together to evaluate the status of their medical needs and their facilities, and it might be possible to save at least one hospital in each rural region of the country and develop regional emergency medical systems to transport patients. The Farmers Home 111 funds could be used to help communities solve these and many other problems that we face in creating jobs and maintaining rural communities.

We also ask that in addition to providing funds that this subcommittee urge the Bush administration to reinvigorate the Farmers Home nonfarm rural development programs because these funds are important to thousands of small communities across the country who are already working with the private sector to maintain and create jobs. We need the resources to get the job done, and we ask your help.

Thank you for letting us testify, and we will be glad to answer questions.

Senator BURDICK. Ms. Wholbruck, yesterday another witness said that without a firm and continued commitment to water and waste disposal programs, we would be sacrificing many opportunities for industrial development in rural areas. What is your opinion on this observation?

Ms. WHOLBRUCK. We certainly agree with that, Mr. Chairman. I think people do not understand that on the infrastructure side either we do not have it in rural areas or what we have is inadequate or what we had has not been kept up to date because of all of these drastic reductions in Federal programs that encourage that.

Senator BURDICK. Thank you very much.

Our next witness will be Mr. Clark Cronquist, National Rural Water Association.

NATIONAL RURAL WATER ASSOCIATION

STATEMENT OF CLARK CRONQUIST, BOARD EXECUTIVE DIRECTOR, NORTH DAKOTA

Mr. CRONQUIST. Mr. Chairman, I am Clark Cronquist, president of Agaccie Water Users of Gilby, ND. Thank you for allowing me as a member of the North Dakota Rural Waters Systems Association and executive committee member of the National Rural Water

Association to appear before your committee today. We want to express our deepest appreciation for your help in providing an increase in our Rural Water Circuit Rider Program last year which has enabled us to strengthen the program in all States.

We also thank you for your support of the Farmers Home Administration Rural Water Grant and Loan Program.

We are here today to request the continued support of you and the committee for these two very important rural programs. Specifically, we are requesting funding for the FmHA Rural Water and Sewer Grant Program at $150 million and the loan program at $330 million.

Funding for the Circuit Rider Technical Assistance Program at $3.4 million would allow for a more intense use of circuit riders in areas of the country affected by the most serious environmental problems.

The request for $150 million for the Rural Water and Waste Water Grant Program is a significant increase from the $109 million provided by the committee last year. We fully understand the problems this committee faces with the budget deficit, but we urge you to consider the impact this amount of money will have on the water-related environmental and health problems in many rural areas.

The goal of FmHA has always been to bring safer drinking water to rural residents. Now EPA has entered the picture in an expanded role through both the Safe Drinking Water Act, drinking water regulations, and the deadline on compliance with the Clean Water Act.

These Federal requirements are dramatically increasing the cost of managing rural water and rural waste water systems. In response, small communities have gone to their State governments for help and in some cases have received new resources. They have increased water and sewer rates only with general public support; however, in these and other cases it would be impossible to gain new financial support without the critical seed money that the FmHA grant funds provide for projects in low-income areas of each State.

These grant funds are highly leveraged, and an increase in the grant program will have a multiple impact on the improvement of small water and sewer systems throughout the Nation.

We now have our Rural Water Circuit Rider Technical Assistance Program operating in 50 States. Thanks to the action of this committee last year, a full-time rural circuit rider working under the oversight of each State Rural Water Association is available to provide hands-on assistance and guidance to all rural water systems in the State regardless of size or problem.

This allowed many rural systems to steadily improve the efficiency of their operation and the quality of their water delivered.

In fiscal year 1988 the North Dakota Circuit Rider Program assisted rural water systems with 477 technical assistance contacts in 52 counties throughout the State, an average of 40 technical assistance contacts per month. Circuit riders have saved significant amounts of money in preventing water loss and reducing the need for replacement of pipes, pumps, and other equipment and in working the systems to set adequate water rates in order to provide funds for the continuous preventive maintenance.

During this past year the circuit riders have visited over 19,000 rural water systems throughout America to provide hands-on help. The new State circuit riders in the additional States have just begun to expand their activities. We believe that having a national border-to-border program is having a dramatic impact on the upgrading of small water systems in those areas with the most serious water problems.

I want to thank you for your past support of rural water and to urge you to maintain the funding level for the FmHA rural water loan program at the $330 million level; increase the FmHA grant program to $150 million; and provide $3.4 million for the Circuit Rider Program.

In closing, I want to tell you how appreciative we are in North Dakota of you and your staff's efforts to allow us to repurchase our FmHA assets instead of having them sold to an unknown over which we have no control.

Thank you, sir.

Senator BURDICK. Thank you.

If $150 million were approved for rural water and waste water grants, what portion of these funds would ideally be committed? Two choices: building new systems, expand the water service in existing systems; or to repair and maintain the old systems.

Mr. CRONQUIST. I think it would be to expand the old systems and to repair and maintain the old systems. I really do. There is a great need to do that. In some cases they do need new systems. There is no doubt about that. But the repair and maintenance of the old systems to keep them operating to provide water for those that already have it is also very important.

Senator BURDICK. Well, we will keep that in mind. Thank you very much.

Mr. CRONQUIST. Thank you.

Senator BURDICK. Mr. Cronquist, my staff member is very disturbed. You listed 52 counties in North Dakota, and there are 53 counties.

Mr. CRONQUIST. There are 53 counties.

Senator BURDICK. Which one did you miss?

Mr. CRONQUIST. I cannot imagine. It must be Billings since there is no one out there, but I am sure we had them all. I think it is a typographical error, myself.

Senator BURDICK. Our next witness will be Dr. Edward Balasbaugh, Department of Entomology, North Dakota State University, speaking on behalf of the Association of Systematics Collections.

Welcome to the committee.

ASSOCIATION OF SYSTEMATICS COLLECTIONS

STATEMENT OF DR. EDWARD U. BALASBAUGH, JR., DEPARTMENT OF ENTOMOLOGY, NORTH DAKOTA STATE UNIVERSITY

Dr. BALASBAUGH. Thank you, Mr. Chairman.

Yes; I am professor of entomology at NDSU, and in my position there I teach classes on insect identification and classification. I curate the North Dakota insect reference collection, but this morning I am here on behalf of the Association of Systematics Collections. That organization is one that looks after the interest of institutions which maintain biological collections such as insect collections.

First of all, I would like to thank the committee for their support in the past, for their comments and help on attempting funding for the proposal that I am here for this morning. The bottom line, which I will put at the top this morning, is that I would like to suggest to the committee appropriations of $2 million in addition to the ones now received by the Systematic Entomology Lab in the ARS, the Agriculture Research Service.

This would return them to the funding which is appropriate to the proficiency that that organization and that laboratory has operated in the past.

In 1986, for example, that laboratory had 29 scientists. Today it is down to 25 scientists, and their budget constraints are such that they are operating at much less proficiency.

The duties of the people in this laboratory are identification of insects and mites; they conduct research on the classifications of these mites, on the biologies of them, and the results of these efforts are publications.

Part of their duties also have to do with collection management of the materials that they must work with.

These services that we receive in North Dakota are identifications of specimens that we submit to them. Not only are we in North Dakota dependent upon proper identifications, but all States in the United States and many other institutions also benefit by the services that they do.

This includes all the other agencies within the ARS. It is essential for all the other laboratories to realize and be absolutely certain what species of insects or mites they are working with.

Suffice it to say, the funding has not been up to snuff for this laboratory. The 25 people that are in the laboratory today are receiving about one-half the funds for per individual that another ARS researcher would receive in any of the other laboratories. So their operating budgets for loans and letters and correspondence and secretaries and all this really threatens the services that they have. I have heard that even personal moneys and personal time has been contributed by family members to do the duties that these people conscientiously perform in this laboratory.

Now as a user in North Dakota, we are a government agency that receives help, as do the Federal Government and the other agencies besides ARS. Private industry is also benefited by the services of this. The universities receive help through the identifications but also research help with our research projects.

The cooperative extension service depends on them. Even local governments and some foreign agencies receive help, as do individuals including the farmers and ranchers. Everybody ultimately in this country is a beneficiary of the services this laboratory performs.

At this time I would like to ask my colleague over here to pass out some paper weights to you for the members of the committee. These paper weights illustrate some of the insects that we have of significance in North Dakota with which the laboratory has helped us.

The little tiny specs that you will notice on the paper weight there are aphids, believe it or not. They look like an imperfection when the mount was made. These are the Russian wheat aphids. You may have heard of this insect. It is one that we do not yet have in North Dakota. You might be looking for it in this map, but we are looking for it diligently in North Dakota because it is through the States south of us. This is an imported insect pest which is detrimental to wheat and small grain.

I kind of liken the identification of insects to telling players without a scorecard. You absolutely have to know what the insect is in order to identify it correctly, in order to treat it correctly, in order to pitch the proper control to it.

Some of the other insects in North Dakota that the laboratory has helped us with, you may have heard of the sunflower midge, a pest that is very serious in the Red River Valley.

All States receive help with identifications of insect pests in their areas. The sunflower midge proved to be a new insect and one which members from this laboratory identified as a new species.

There are a couple of beetles down here which are the lady beetles, the seven-spotted lady beetles. That is also an introduced insect but one which you might say are the good guys. These Coccinellids, lady beetles, feed on such things as the aphids.

A book was recently written by a member of the laboratory there on the identification of more than 475 species of Coccinellid beetles or lady beetles in North America. It is absolutely essential to know what insects you are working with in order to even use the beneficial ones.

If the $2 million were not available, a second alternative for this lab might be to cut back to 15 scientists at the full funding; however, there are drastic drawbacks to this as I perceive as a user of the services. There are gaps in the coverage. Not every worker there can cover all the other insects for other people. You become a specialist over the years, and your expertise develops. So it would take more time to identify specimens, and the accuracy might fail.

My assistant also handed out some additional information. Again, I urge the full $2 million in additional appropriations for the laboratory to return it to its former proficiencies, and I thank you very much for your attention this morning.

Senator **Burdick**. Thank you.

What is the current base level of funding for the Systematic Entomology Laboratory?

Dr. **Balasbaugh**. I have been informed it is about $2 million, I believe, sir.

Senator **Burdick**. Are you asking for a 100-percent increase?

Dr. **Balasbaugh**. $2 million to return it to its 1986 efficiency, and in addition $2 million more.

Senator **Burdick**. So that would be a total of $4 million?

Dr. **Balasbaugh**. Yes, sir.

Senator **Burdick**. Well, if you had the $2 million increase, how many more scientists would you have?

Dr. **Balasbaugh**. They could return four laboratories to the 1986 level but increase the funding of the current ones up to what is current with the other ARS laboratories.

Dr. **Hoagland**. If I could help out, they are talking about having to decrease the number to 15 scientists if funding is not increased by the $2 million because the existing scientists are only one-half funded to do this kind of work. So we are talking about a difference between 15 and about 32.

Senator **Burdick**. Would you identify yourself for the record?

Dr. **Hoagland**. Yes; I am Dr. Elaine Hoagland, executive director of the association.

Senator **Burdick**. Thank you.

Our next witness is Mr. Scott Sklar, U.S. Export Counsel for Renewable Energy.

U.S. Export Council for Renewable Energy

STATEMENT OF SCOTT SKLAR, EXECUTIVE DIRECTOR

Mr. **Sklar**. Thank you, Senator.

We are an umbrella group of nine national renewable energy trade associations promoting exports of alcohol fuels, geothermal, hydropower, photovoltaic, solar thermal wind, and wood energy technologies. We are coming to testify before the committee for the first time to ask for a creation of a center for advanced pumping technology at one of the existing Agriculture Research facilities of your choice.

We are asking that be supported at a $350,000 level, and we are asking to do this because we are getting clobbered in international markets.

The United States leads the world in photovoltaic, solar, electric, and wind technology, and 65 percent of our sales are overseas in rural areas.

The book I just handed you from USAID published on our behalf shows we are competitive today against diesel power in all aspects. We have the Third World being totally reliant on imported diesel, and we need to build our markets because the European and Japanese companies are clobbering us. They are clobbering us because they have developed research training centers in Japan and, most notably, Denmark and Germany where they bring foreign agricultural experts to those countries, train them on Danish, German, and Japanese technology, and when they go home that is what they buy.

To show you, this is a photovoltaic directory that the Department of Energy funded. You might look at the cover. One year later this is the directory Japan funded. Notice the layout. It looks pretty close, does it not? They mimic us in everything we do.

We are high technology. We need some help because we are new technology. Solar energy is more economical than wind energy is, but unless we train people, foreign agricultural experts, on this technology, it will never be used easily.

I guess my last point, Senator, is that I understand that you have some very hard budget concerns this year, and asking for new money, even $350,000, is probably a problem. The industry, however, dollar for dollar will be spending more than the $350,000 to make this work.

The benefits in terms of sales are profound. It is a multibillion-dollar potential market in the Third World, and we are already jointly selling somewhere around a few hundred thousand dollars in photovoltaic technology just to one country alone in the Caribbean. We are spending millions in Africa, and we are starting to really build our markets.

I thank you for hearing us out.

Senator **Burdick**. What would be the full cost of the center for advanced pumping technology and over what period of time?

Mr. **Sklar**. We expect that the center, which will be generally self-sufficient, will take 3 years of funding, cost shared 50–50 with industry at the $350,000 level for 3 years. So it would be 1 million dollars' worth of U.S. funds over 3 years and 1 million dollars' worth of U.S. industry funds over 3 years.

Senator **Burdick**. Thank you.

Mr. **Sklar**. Thank you, Senator.

SUBCOMMITTEE RECESS

Senator **Burdick**. This concludes the morning's hearing. The subcommittee will continue its hearing this afternoon at 2 p.m. in the same room. The subcommittee stands in recess.

[Whereupon, at 11:50 a.m. the hearing recessed, to reconvene at 2 p.m. this same day.]

(AFTERNOON SESSION, 2 P.M., THURSDAY, APRIL 20, 1989)

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

The subcommittee reconvened at 2 p.m. in room SD-124, Dirksen Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Burdick, Kerrey, and Cochran.

Senator COCHRAN. The meeting of the subcommittee will please come to order.

The Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies continues its hearings on the budget for the next fiscal year beginning October 1, 1989. We are hearing from public witnesses, those who are interested in the appropriations bill and the programs administered by the Department of Agriculture and Related Agencies that come under the jurisdiction of this subcommittee.

Today, we have several witnesses on our agenda, and we hope that each witness can keep his testimony to within 5 minutes to allow us an opportunity to discuss the testimony if that seems necessary.

Our first witness today is the Honorable Jaime B. Fuster, who is the Resident Commissioner of Puerto Rico. We are very happy to have the Commissioner with us. We understand the subject is the nutritional assistance program for Puerto Rico.

We welcome you to the committee. We have a copy of your statement which you submitted, and we thank you for it. You may proceed.

CONGRESSIONAL WITNESS

STATEMENT OF JAIME B. FUSTER, RESIDENT COMMISSIONER, PUERTO RICO

Mr. FUSTER. Thank you, Mr. Chairman. I would like to read an abbreviated version of that testimony and then answer whatever questions you may have.

I appear before you today on behalf of the 3.5 million American citizens of Puerto Rico to discuss a matter which has been considered by this subcommittee several times before, and that is the need to fully implement cost of living adjustments for Puerto Rico's Nutrition Assistance Program.

When the 99th Congress enacted Public Law 99-198, the Food Security Act of 1985, you authorized modest inflation adjustments for the Puerto Rican Nutrition Assistance Program; specifically, the new ceilings provided inflationary increases of 3 percent each fiscal year from 1986 to 1990.

The ceilings were approved to redress the lack of increases which the program had offered from 1982 to 1987 which had resulted in a dramatic reduction of the number of families eligible to receive assistance in the island program.

Now Congress has funded the increases authorized by the Food Security Act for each one of the last 4 years. In his budget proposal for fiscal year 1990, however, President Bush incorrectly indicates that Puerto Rico's Nutrition Assistance Program would be automatically reduced under current law back to the 1992 level. This represents a substantial reduction of the current authorized funding level and an even more dramatic reduction from the funding level authorized for fiscal year 1990.

We believe that the administration's proposal is not only unfair but misleading. The fact is that the Food Security Act authorized an increase for fiscal year 1990, not a reduction.

I am also aware that the administration has cited Puerto Rico's current unemployment situation as another justification for the proposed cut. I am very surprised to see the administration using Puerto Rico's reduced unemployment rate and our modest current economic recovery as grounds to propose a cut in nutrition assistance funds for the island since such criteria has never been used as justification for increasing or reducing nutrition assistance benefits in Puerto Rico.

For example, when the island was taken out of the National Food Stamp Program and given its own Nutrition Assistance Program in 1982, Puerto Rico's benefits were reduced by 16 percent compared to what the island had received in fiscal year 1981. That was done just as Puerto Rico's rate of unemployment reached a record peak of 24.6 percent.

Even now, the funds currently authorized are not adequate from the unemployment point of view. The amount Puerto Rico is currently receiving for its Nutrition Assistance Program is 19 percent less in real terms per unemployed person than what Puerto Rico received in 1979, which was the last time Puerto Rico had the level of unemployment it has now.

Moreover, we should be leery of making important decisions such as this based upon Puerto Rico's volatile unemployment picture. Right now we are very concerned about three major legislative initiatives pending in Congress which would almost certainly aggravate the unemployment picture in Puerto Rico, which even in these prosperous times or relatively prosperous in Puerto Rico is about 15 percent, much higher than in the mainland.

I refer to the minimum wage bill, the CBI-II legislation and a proposal to amend 936 of the Internal Revenue Code that would take away some of the fiscal incentives that Puerto Rico enjoys now. Some of this legislation appears to be in the track for final approval by Congress, and it would have a negative impact upon the island.

To these uncertain circumstances we must add the fact that Puerto Rico has been utilizing a portion of its nutrition assistance funds for a successful work fare program which would have to be terminated should our current funding be decreased, thus throwing an additional number of people into Puerto Rico's unemployment picture.

Mr. Chairman, our unemployment considerations aside, the level of funding authorized for fiscal year 1990 must be maintained, because even that level is scarcely adequate. Program participants in Puerto Rico even today receive less benefits than their counterparts in the mainland.

As of today, for example, a family of four in the mainland can have a gross income of $12,000 a year and still receive maximum monthly benefits of $298, while in Puerto Rico that same family cannot receive nutrition assistance benefits if its income is greater than $8,900 and, if eligible, would receive only $199 in benefits despite the fact that food costs in Puerto Rico are higher by half a percentage point annually than the national average.

Moreover, as a result of the administration's supported cuts in 1982, 100,000 families had to be totally deprived of assistance when stricter eligibility requirements were established. The limited nutritional assistance that the needy in Puerto Rico receive is particularly insufficient when we take into consideration the fact that Puerto Rico does not participate in several major Federal assistance programs that also help their counterparts in the mainland such as supplemental security income and participates only to a limited extent in various Federal programs for the needy such as AFDC, Medicare, Medicaid, and others.

The bottom line is that the poor Americans who live in Puerto Rico not only receive food assistance which is grossly inadequate to meet their nutritional needs but that they are also subjected to a form of economic discrimination which other disadvantaged citizens do not experience.

To this dismal situation the administration now wants to add a new burden by proposing to scale back the modest cost of living adjustments that Congress has provided for the last 4 years.

Mr. Chairman, the Commonwealth of Puerto Rico objects to this unfair and unjustified regression and requests the full funding for the Puerto Rico Nutritional Assistance Program as authorized by law for fiscal year 1990.

Thank you.

Senator **Cochran**. Thank you very much, Congressman. We appreciate the fact that you have come here today to tell the committee some of the facts concerning the situation in Puerto Rico and of the importance of this program.

I was trying to remember. I am on the Agriculture Committee—the Legislative Committee—as well as the Appropriations Committee, and I guess the authorization of the program as it relates to Puerto Rico will again be reviewed when we write the 1990 farm bill; will it not? If there are any changes to be authorized or made in the legal authorities that we have for appropriating funds, they will have to be made at that time.

What you are telling us is that the subcommittee has been providing the authorized level of funding in the appropriations bill and that you would like to see the committee continue that practice in this next fiscal year?

Mr. **Fuster**. That is right, sir.

Senator **Cochran**. I think the point that you have made is very clear to us, and I am sure the committee will benefit from having your observations about the situation in Puerto Rico.

How has the cash out program worked in Puerto Rico? Do you consider that a success?

Mr. **Fuster**. Yes; very definitely so. From various points of view there was a very indepth study conducted by the U.S. Department of Agriculture a couple of years ago, and it has turned out to be more efficient in administering the funds than the prior program. Substantial savings on the order of close to 10 percent have been achieved by this new way of administering the funds.

The problems we had experienced with food stamps in terms of some fraud and misuse of the funds have also declined significantly.

Finally, as I mentioned briefly in my testimony, it has allowed us to put into effect a work fare program which is beginning to show a lot of success which we could not do before and which we hope down the line will help us considerably in lowering the amounts of people that are on assistance.

Senator **Cochran**. Thank you very much for providing us with this information, and we appreciate your taking time to be here today at our hearing.

Mr. **Fuster**. Thank you.

Senator **Cochran**. Our next witness is Mr. John Armstrong, who is chairman of the Animal Health and Inspection Committee of the National Cattlemen's Association. He is from Kingsville, TX.

Welcome to the committee, Mr. Armstrong. We have a prepared statement which we appreciate very much and invite you to make whatever comments you would like in addition to the statement.

National Cattlemen's Association

STATEMENT OF JOHN ARMSTRONG, CHAIRMAN, ANIMAL HEALTH AND INSPECTION COMMITTEE, KINGSVILLE, TX

Mr. **Armstrong**. Thank you, sir. My name is John Armstrong. I am a cattleman from Kingsville, TX, as you have just been told, and the chairman of NCA's Animal Health Committee. I appreciate this opportunity to present NCA's views on the 1990 USDA budget proposed by the administration. I will present a summary of a more detailed statement which has been submitted to the committee.

The APHIS programs are of vital interest to cattlemen. NCA has worked actively with APHIS to eradicate brucellosis since 1980 when the recommendations of the National Brucellosis Technical Commission were incorporated into the APHIS regulations.

Since then, the national total of infected herds has declined more than 20 percent per year, and there are 29 free States, 17 A States, 6 B States, and 1 BC State, Florida.

Since the program began 55 years ago, it has cost Federal and State governments and the beef and dairy industries over $2 billion. We are on the verge of successful eradication, but we do not believe we can reach our objective at the funding levels projected for the next few years commencing with $55 million in 1989.

NCA strongly recommends that funding for brucellosis eradication for 1990 may restore it to the 1988 level of $65 million. NCA requested of APHIS that this final cleanup task be studied to find a more cost effective alternative.

The NCA with other livestock organizations, State veterinarians, and other interested parties have been working with Dr. James

Glosser, administrator, and his staff to develop a proposed rapid completion plan. We believe this plan is the most cost effective way to accomplish our goal to eradicate brucellosis, and copies of it will be available.

Animal damage control programs also concern our members not only in the West but also in the East where coyotes have now established themselves. We support the proposed $29.8 million for ADC and the additional $7 million for Denver wildlife research fund.

APHIS is currently implementing a reorganization plan. NCA supports the reorganization and believes it should be given time to work before judgments are made.

We commend the work of the Agricultural Marketing Service, FSIS, and packers at stockyards. These agencies have been responsive to the beef cattle industry, and we support funding levels proposed by the administration. Some minor concerns are detailed in our written testimony.

NCA supports the proposed budget increase for the Agricultural Research Service, CSIS, and Extension Service. We appreciate the proposed $6.2 million increase for ARS and the animal science budget, but we are still concerned that plant research gets twice as much as animal science gets, when income from livestock production about equals that from plants.

ARS should devote more research to plants utilized by animals, and ranch plant research should be recognized as being a relatively neglected area.

We strongly encourage extension to use the concept of an integrated resource management for developing their profitability programs and to utilize the national IRM coordinating committee.

NCA supports proposed funding for the economic research service, particularly the $2.8 million increase for data houses related to water quality.

We also support proposed funding for the National Agricultural Statistic Service, including the $6 million one-time expenditure provided that this money is used for actually improving the accuracy of NASS reports.

USDA's issuance of nutritional information and dietary guidance is extremely important to the cattle industry. NCAA appreciates the Human Nutrition Information Service's efforts to update handbook 8-13 with data on the leaner beef we now produce.

Cattlemen strongly support a national nutritional monitoring system which will make it possible for USDA and Health and Human Services to speak with one voice when issuing dietary guidance.

NCA is concerned with recent actions of the Farmers Home Administration. Through provisions of the Farm Credit Act of 1987, FmHA has begun to transfer without reimbursement their inventory lands to other parts of Government for conservation uses. Someone evidently determines that the inventory property is no longer suitable for agricultural production. We think such action misreads the intent of the law and misuses FmHA funds. It should be stopped immediately and thoroughly reviewed.

This concludes my remarks. Thank you very much.

Senator COCHRAN. Thank you, Mr. Armstrong, for making the presentation as you have.

We know that the cattle industry is one of our most important industries in America today. It provides us not only with some helpful and nutritious food, but also opportunities for trade.

I think we are doing a better job in expanding our opportunities for selling in overseas markets, not only meat products but cattle themselves. I have run into situations where American breedstock is highly prized in many parts of the world, and experiments are underway trying to develop livestock breeds that are suitable for different parts of the world. I think you provide us a very important part of our trade revenue, and you are to be congratulated on that.

I hope we can continue to break down barriers to trade. I know that the efforts of the trade representative who is now our Secretary of Agriculture focused a great deal of attention on Japan and some of the barriers to the sale of beef and beef products in that market. We have made progress to reduce some of those impediments to trade.

Citrus is another area where success has been obtained in some degree. We hope that continues, and I think we will put a lot of pressure on these trading partners around the world to be more open and fair in dealing with American producers of agricultural products and manufactured goods and services as well.

I am also glad to hear from my own Cattlemen's Association in Mississippi that the prices continue to be holding pretty firm and things are going pretty well in the cattle industry. That is good news, and I am glad to have some good news in Washington occasionally. We get a lot of bad news, you know. People with very serious problems come to Washington for a discussion of those, and that is important, too. I am glad to have some good reports from the cattlemen's point of view on things.

We will take the suggestions that you have made into consideration, and we will look at this very carefully as we deal with the individual accounts that come under the jurisdiction of the subcommittee.

As you have observed, I hope that the brucellosis program can get back on track and that we can breathe some new vigor into that program. We need to go ahead and eradicate, if we can, that problem. I think your industry is working with us in trying to help do that.

I have no questions. I just want to thank you again and congratulate you and Tom Cook, the friend you brought along as a bodyguard. He does a good job for your group here in Washington, and we are glad to see him at the committee hearing today.

Thank you for being here.

Mr. ARMSTRONG. Thank you, sir.

Senator COCHRAN. Our next witness is a constituent of mine, Bruce Brumfield, delegate of the National Cotton Council of America. He is from Inverness, MS, and one of our finest citizens.

It is a pleasure to be here in the chair today and to welcome him to the committee and let him know that we are going to be looking very carefully at the appropriations that affect the cotton industry.

We look forward to your testimony. We have a prepared statement of the Cotton Council, and we invite you to make whatever comments you like at this time.

NATIONAL COTTON COUNCIL OF AMERICA

STATEMENT OF BRUCE BRUMFIELD, DELEGATE, INVERNESS, MS

Mr. BRUMFIELD. Thank you very much, Mr. Chairman. As you stated, my name is Bruce Brumfield, and I am a cotton producer from Inverness, MS. I also serve as chairman of the National Cotton Council Technical Committee.

The council is a central organization of the U.S. cotton industry representing growers, ginners, warehousemen, cottonseed crushers, merchants, cooperatives, and textile manufacturers from California to the Carolinas.

In January, council delegates strongly endorsed expanded agricultural research, education, market development, and action programs to reduce environmental concerns, decrease costs, and increase competitiveness of U.S. cotton.

Understanding the need to hold the line on Government spending, we have reluctantly accepted a no-growth budget for agricultural research and extension for several years. We expected that funding for essential projects would be provided in the future, but such has not been the case.

In keeping with the need to work with fewer resources, the cotton industry last year completed a comprehensive beltwide analysis of priority production problems. The report was delivered to our industry and Government partners with hopes that key programs not be further cut.

We have aggressively helped to reassess program priorities and see no further opportunities for cutting research without severely jeopardizing important efforts; therefore, we are recommending several adjustments in the USDA's proposed fiscal year 1990 budget.

Time allows me only to summarize our request, so I ask your consideration of our written statement, sir. It is noteworthy that all of our requests for research, extension, and APHIS programs have the common thread that they not only address quality and competitive needs for agriculture but they also help the entire priority national and environmental objectives.

We notice that Smith-Lever formula programs will be maintained at the 1988 and 1989 levels. While programs suffer with level funding, we nevertheless understand the Department's priorities and reluctantly can adjust to the proposal. We support the proposed $1 million increase for pesticide impact assessment, support continuation of extension pest management programs, and commend the Extension Service for its proposal of the Priority Initiative Program.

We appreciate the 3.5-percent increase proposed for the Agricultural Research Service even though the increase is considerably below the needs for a growth program.

Improved quality and reduced costs are key elements in competing for markets at home and abroad; therefore, council delegates requested a special appropriation of an additional $2.17 million to strengthen ARS programs in cotton quality, computer management, and processing systems. The funds would be used for programs that the IRS Crop Simulation Laboratory at Mississippi State University and the USDA ginning laboratories located in Mississippi, Texas, and New Mexico.

Benefits of reduced costs plus improved quality will no doubt enhance our industry's competitiveness while decreasing environmental concerns.

We commend emphasis in pesticide application technology and urge USDA to strengthen the size of these programs. These efforts are essential to maintaining environmental quality through targeted placement of plant protection chemicals.

The CSRS budget is slated for a decrease of 7 percent from the 1989 appropriations primarily through drastic cuts and special grants programs. Nearly all special grants programs are national in scope. We, therefore, request full restoration of CSRS special grants budgets to at least the 1989 appropriated level of $28.76 million.

Council delegates also endorsed continuation of pest management and eradication programs administered by APHIS. The proposed budget recommends a cut in pink bollworm funds. To continue this important program in the Western States, we request restoration to at least the 1988 level of $1.7 million.

We are requesting 1990 appropriations of $16.671 million for APHIS' share for continuing the Boll Weevil Eradication and Containment Program. Farmers in the program area who pay 70 percent of the costs strongly support the eradication efforts. These programs are effective only through the support of a national coordinated effort such as APHIS can provide. These programs have important environmental benefits as well. By way of example, the successful boll weevil eradication program in North and South Carolina has reduced the number of spray applications to approximately 70 percent below preeradicated levels.

On another front, council delegates resolve to maximize the authorization of funds for foreign market development. We support continued funding of the Market Development Program at the level proposed by the administration and the Targeted Export Assistance Program at the level set forth in the Food Security Act of 1985.

We appreciate the emphasis on export enhancement for cottonseed oil through the SCOAP Program and fully support funding at a level to ensure market competitiveness.

While funding for the Department of Commerce may be beyond the scope of this subcommittee, we want to express appreciation for the continued support of NOAA's agricultural weather service. Crop management decisions from planting through harvest are often based upon AWS data. We are requesting a level of funding of $1.5 million or approximately $500,000 above the fiscal year 1989 appropriation.

Mr. Chairman, I thank you for the opportunity to submit our requests before you today, and I will be glad to respond to any questions that you may have.

Senator **Cochran**. Bruce, it is good to see you and to hear your testimony today on behalf of the National Cotton Council. I think you make some important points about the strain and stress that has been caused due to the budget constraints in many of these important areas, particularly research, over the last few years. I hope we can get an adequate level of funding approved by Congress and signed by the President for these important areas of activity.

In connection with the Boll Weevil Eradication Program that you were referring to, I noticed that APHIS announced just last week that they were beginning the planning of a new strain of cotton that had been developed and that would be resistant, they hoped, to various kinds of pests. I do not know how that is going to turn out, but it sounded encouraging. It is that kind of research that could mean a great deal to us in terms of efficiency and competitiveness with foreign producers.

Also, one other piece of good news, it seemed to me, came out of the Department recently in terms of reassessing the way the adjusted world price for cotton was calculated under the Marketing Loan Program.

We have been trying to get attention to a problem there for some time, and it seems that we might be on the right track now in terms of the administration of that program in an aggressive way so that we can sell more cotton in the international market.

We talked to one of our witnesses at a hearing this week about using some of our Export Enhancement Program tools to sell cottonseed oil, and they were telling us about a sale they were about to make in Egypt using that export program.

That is another piece of good news; I just thought you would like some good news. We tend to focus on the problems, but we do need to address these problems that you have mentioned.

In connection with the special grants portion of the CSRS appropriation, it is not unusual to see the administration's budget requesting no funds. Invariably, the Congress identifies those grants and then provides funds to pay for them. The administration tends to favor the research programs that are under the control and jurisdiction of the ARS.

I imagine that we will restore funds for that program. We will try to identify some priority research projects and places where that research can be done to help improve and maintain a healthy agricultural economy. It is very important.

I do not know whether you have gotten a notice, but we are going to have some hearings in Cleveland, MS, on Monday. The Agriculture Committee is going down there, and we look forward to being able to talk about some of these programs at that time with the legislative committee.

I think Woods Eastland is going to represent the cotton growers and present testimony, but if you are there, we would like for you to come by. It is not far from Inverness to Cleveland.

Mr. **Brumfield**. Thank you, Mr. Chairman. I plan to be there.

Senator **Cochran**. Good. I will look forward to seeing you.

Are there any other observations you would like to make in addition to those you have made or in connection with any comments that I have made about some of the things that I remember from recent hearings and news releases from the Department?

Mr. **Brumfield**. I certainly appreciate your mentioning the special grants, Mr. Chairman. The Cotton Council feels that the Special Grants Program is very important and has played a big part in several breakthroughs of particular problems, and we would certainly ask for your subcommittee's support of the Special Grants Program.

Senator COCHRAN. Thank you very much, Bruce. We appreciate your being here and congratulate you on your statement.

Mr. BRUMFIELD. Thank you, sir.

Senator COCHRAN. Our next witness is Dr. George May, who is director of the Space Remote Sensing Center of the Institute for Technology Development. George is also a constituent.

It is good to see you here today, Dr. May. We appreciate your taking time to present oral testimony to the committee. We have a copy of your statement, and we invite you to proceed in any way you wish.

INSTITUTE FOR TECHNOLOGY DEVELOPMENT

STATEMENT OF DR. GEORGE A. MAY, DIRECTOR, SPACE REMOTE SENSING CENTER

Dr. MAY. I want to thank you, Mr. Chairman, and also the committee for allowing me to appear here today. My name is George May, and I am the director of the Space Remote Sensing Center located in southern Mississippi. This center is a not-for-profit corporation that is dedicated to transferring satellite technology to the private sector. Our major emphasis is in agriculture and forestry.

I personally was born and raised on a farm in Pennsylvania. I have a Ph.D. in agronomy from the Pennsylvania State University, and all my professional career I have applied this satellite technology to agricultural problems.

Currently, my brother and I do own and operate a farm in Pennsylvania.

With the chairman's consent, I would like to go ahead and just briefly go over my prepared statement.

I want to urge the committee to provide $985,000 to the USAD Agriculture Research Service budget for fiscal year 1990. This would allow the continuation of the program of applying satellite technology to agriculture. Last year I appeared before this committee and urged you to approve a 3-year $2.6 million program that would allow us to get satellite data products to the farmers of the United States of the five major crops of this country, being cotton, corn, soybeans, rice, and winter wheat.

The overall objective of this program is to demonstrate to the American farmer that this technology can provide information that he can use to better manage his crops. This technology transfer program is based upon a significantly large research base that the Federal Government has already funded in the late 1970's and early 1980's. The programs were called AgRISTARS and LACIE.

So what we really want to do here is apply new technology. Since these programs have ended we have better sensors in space today and we have better computer technology, and we want to see if we can get a return on that investment by the Federal Government from that research base.

I am pleased to report that through the $300,000 appropriated through this committee last year, we have initiated this program.

Space remote sensor centers are currently working with four different agriculture research centers in the United States. Our major focus for 1989 is on cotton, corn, and soybeans.

For 1990, as I have already mentioned, we have presented a budget for $985,000. Given Government and budgetary restraints, we have taken a close look at this program and have scaled it down and have a deferred budget which we also submitted in the testimony today that would keep this program on track and progressing.

The amount in this request is for $640,000 for 1990. With these funds, we would be able to continue and probably conclude the cotton program in 1990 where we would actually have cotton satellite products in all four major cotton growing regions of the United States.

We would also like to initiate a rangelands program where we use satellite data to monitor the grasses of both rangeland and pasture. Because these satellites are looking at biomass material and this actually falls in similar to what the National Cattlemen's Association mentioned two testimonies ago, applying this technology and trying to move the cattle on and of these pastures and grasses.

One crop that we did not bring forward last year that we would like to initiate in 1990 is vegetables. This is an extremely high value crop. It is intensively managed, and satellite technology appears to have a lot of promise in applying it to these crops. We would like to initiate that in 1990.

I think we have laid out a logical and exciting program, and we are anticipating a positive impact from it where the farmer will actually have an increased net profit per acre from implementing this technology.

Again, I want to thank you for allowing me to testify today, and I would like to answer any questions you may have.

Senator COCHRAN. If I were in my State and a farmer stopped me and said, what are you all doing spending so much money on satellite stuff, that is not doing me any good? What would my response appropriately be if I would want to defend the appropriation that you are asking me to recommend to the other members of the committee?

Dr. MAY. The reason for this funding is to get this satellite technology into that farmer's hands who is asking the question, because what we are finding out is that most Americans and most farmers know that we have a flag on the moon and we have a space shuttle but they do not know that we have three orbiting satellites up there today that are continuously looking at the Earth's surface, let alone what the potential could be of getting that data processed into their hands so that it could provide some useful information to help them better manage the crop both this year and in next year's season.

Senator COCHRAN. Up to this point, the funds that have been made available have been used for what purpose exactly?

Dr. MAY. This year we began in the fall, in the cotton crop of last fall, 1988, and we visited five farms over 2,000 acres each in the delta. In visiting with these farms we have worked with the Delta Branch Experiment Station.

It is a two-fold edge. One, we are trying to get this information into the farmer's hands so he can touch it and see what it really can do for him.

Second, we are working with the Delta Branch Experiment Station to determine if we can accurately map yield and crop vigor during the growing season. That again would alert that farmer of some problem areas.

A second major focus in the cotton program for 1989 is the Maricopa Agricultural Center in Maricopa, AZ. This is a 2,000-acre demonstration farm that is run for profit. The management has put up $100,000 toward this program with the Space Remote Sensing Program for this growing season. About one-fourth of that or over one-third will go toward actual buying of satellite data, and the rest is going to go toward farm management to actually implement what we find out.

In that situation we are working directly with the farm managers, and we will have our people on that farm processing the satellite data, and within minutes we will be out in the field for the things that we might detect, which would be stress due to weeds or some bug infestation. It would not be water related at this point in time.

So those are the two major thrusts from a demonstration and education standpoint that we are focusing on this year.

The other major area is in corn soybeans. Last summer we were monitoring the drought in the Midwest with the satellites, and with ARS we began to develop yield models. Right now we can very easily qualify what we see, but what we want to do is quantify what we see in terms of acreage, yield and production, and we want to finish those models in this fiscal year 1989 so that we can both quantify and qualify an episodic event like the drought.

Senator COCHRAN. Is it your opinion, then, after you take these steps to further develop the technology to be able to apply that in some helpful way for those who are actually involved in production agriculture?

Dr. MAY. Yes; the initial reaction of the farmers is that this is pretty, but of what value is it. There is no doubt about that. But once you spend 2 or 3 hours with them in the field, then things start to click. The easiest way of looking at it is it is a birdseye view of their farm. They may know they have a problem in some part of the field, but what they do not realize is the extent of that problem, and they have that problem in several parts of the field. They never get higher than a combine.

So the actual birdseye view and being able to concentrate on that field from space and to do the analysis—because we are really doing things that you cannot detect with your eyeball because your eyeball is not as sensitive as what we are getting from space. We are in the middle and far infrared spectrum where our eyeballs do not detect.

So ultimately, what we want to be able to do is to be able to generate interest in these products so that there will be service organizations out there that can repeatedly hand these to the farmer where he can get them access to this data; not processing, but just actually getting a product, a stress map or an infestation map as an example.

Senator COCHRAN. I appreciate your taking time to explain to us the work that you are doing. I hope that we can find a way to provide funding for a continuation of the program. This will be very helpful in our decision process.

Thank you very much, Dr. May.

Dr. MAY. Thank you, Mr. Chairman.

Senator COCHRAN. Our next witness is Mr. James Lee Adams, Jr., who is president of the American Soybean Association.

We are very happy to have you with us today. I understand you are from the State of Georgia?

Mr. ADAMS. That is correct, Senator.

Senator COCHRAN. We welcome you to the committee and encourage you to proceed in any way you like.

AMERICAN SOYBEAN ASSOCIATION

STATEMENT OF JAMES LEE ADAMS, JR., PRESIDENT

Mr. ADAMS. We have submitted some written testimony to you, and I would just like to give a quick summary of what it is.

I do farm down in Georgia, and I am president of the American Soybean Association. I am here today to speak on behalf of ASA's request for export programs and agricultural research.

In the export program input from the President, the dollar was down this year. We would expect, though, that because of increase in the agricultural exports, we think a lot of that increase is due and attributable to the 75 cooperators working overseas on exporting activity.

The FAS summary feeding trials that we have been conducting in the Soviet Union have been very encouraging. Just recently the Russians have told us that they expect to be importing needs on soybeans up to one-half of the U.S. crop within just a matter of years. The export potential is there. We need to continue to expand it. We need offices, say, in Moscow and other operations where we can reach out to these type of opportunities for the soybean farmers worldwide.

We are also very concerned about FAS funding because as the $103 million increase or request this year on our behalf, at least that amount, we know the costs are up 10 to 15 percent because of the fact that the dollar has changed and operating costs in general are up, too. We need an additional $4 million but at least $103 million over all.

I also would like to turn our attention to the TEA funding, the targeted export assistance funding. As you know, in the 1985 farm bill it was mandated to be a $325 million level. In 1989 Congress put a cap on it at $200 million.

The trade war has not abated any, and despite what has been going on in Geneva, we know that these trade questions are still paramount. We feel that the pressures need to be continued, particularly on the European community.

This past year the drought took some pressure off, but we think with the targeted export assistance funds funding at the full rate of $325 million that we could continue to exert pressure on the Europeans, so we could come up with a good settlement in those GATT negotiations that are so important for us in agriculture.

The trade war, as I said, is continuing on. We have opportunities also to expand those TEA opportunities, targeted export assistance type funding opportunities into Asia, and with those type of increases in funding we would have an opportunity.

Also I would like to turn quickly our attention to research. We rank our research priorities as follows: production efficiency research, composition research, and new uses research. I think as these markets start to open up, this is a two-way street. We are probably going to see markets opened up with competition allowed to come into this country. It is going to be absolutely critical, particularly for soybean farmers in your area and down in my area to be more and more efficient. So we have to get our yields up.

So as we see funds pulled out of the traditional agricultural production type research, we are going to have to have more and more funds put back in there for us to remain competitive.

We have to lower our cost of production. We are also seeing more and more possibilities in new uses. Last year we had five newspapers using soybean ink. Today we have over 1,000 newspapers using this type of ink. We would request Congress to appropriate an additional $500,000 to USDA for soybean oil based ink research.

We would further propose that report language suggest a division of funds as outlined on page 7 of the testimony.

Once again, Mr. Chairman, thank you for the opportunity to discuss these important appropriations areas with the subcommittee. I will be happy to answer any questions you may have.

Senator COCHRAN. I appreciate your being here. We have had, I know, two residents of my State who have served as American Soybean Association presidents. I think of Ralph Weems and Seymour Johnson. I think both of them have served in that capacity.

Mr. ADAMS. They served with distinction, too, sir.

Senator COCHRAN. We are very proud of them, and that industry is extremely important to our State's economy. We hope that it can continue to grow in terms of its overall contribution to our farmers and to economic health in our country.

I think if we are going to see growth, we have to achieve it with some new technologies and new uses for those products as you pointed out, like that ink research experiment that is going on. We must try to come up with ways to better utilize that product and different varieties in a number of ways.

I am interested in the comments you made about the potential for sales in the Soviet Union. Is there a particular kind of program that the Soybean Association is contemplating there, or is it pretty much on the same line that we have used in other countries around the world?

Mr. ADAMS. We do not really have the funds today to open up an office. That would cost about $0.5 million. We have, however, been invited to open up an office by the Russians. They want us to move forward because we have been conducting some feeding trials, particularly on pork down in the Ukraine. They have had very dramatic results.

As you know, the pressures are on Mr. Gorbachev and other people in his party to improve a lot of their people, and so they see an opportunity to bring protein in from overseas. What we want to make sure is that it comes from Mississippi and Georgia and other States and not from other sources even further south of us.

Senator COCHRAN. You know we have such an advanced infrastructure in terms of transportation, processing, and handling. It gives us an opportunity to market our product at a competitive price even if the cost of production is sometimes higher here than it is in some of our competitor countries.

That is very important for us to continue to remember. I know the association recognizes the importance of maintaining our ports and highways and infrastructure.

I never will forget one time I was in Brazil and was told that near Brasilia they were putting some new land into soybean production. I hated to hear about it, and I asked them about their yields. This fellow said that the yields were going to be about 45 bushels per acre or something really big. I thought, good gracious, how in the world are we going to deal with that.

Then he said, we are probably not going to grow soybeans on that land because we cannot get it to a port. It costs so much to get them shipped that it makes it economically not feasible.

Mr. ADAMS. Oftentimes they put them in burlap bags and have to carry them out. As long as we have that, I think it would be a real advantage for us.

I think also that with the production research funds that we have asked for coupled with some new research funds that we have made a request for so that farmers would generate themselves through a SBART program, we could really make all our soybean farmers nationwide very, very competitive with some research that we see possibilities that will take advantage of this biotech and some other opportunities we see.

Senator COCHRAN. I am glad to hear that. I had heard that prospects were not all that good for improving the yields through research, particularly in the Southeast. We were running into problems that they did not think they could solve.

But now, if we are approaching the point where we are coming close to breakthroughs and we can improve those yields, that would mean an awful lot to southern agriculture.

Mr. ADAMS. Absolutely. We are confident of it.

Senator COCHRAN. What is your yield average in Georgia?

Mr. ADAMS. The average for the State as a whole is about 23 or 24 bushels. Down in my area of the State, of course, we are irrigated, and probably the average crop is around 55 or 60 bushels per acre. We have some experimental varieties down our way, as high as 90 bushels per acre. I think this is the type of opportunity we are going to see in the future.

I was also told by some researchers the other day of recognized prominence that we could probably stop 95 percent of pesticide use that we are currently having across the Southern United States in soybeans. We have a good biotech breeding program putting resistant genes into soybeans, so this again would lower production costs.

Senator COCHRAN. I knew that progress was being made with that in cotton, and I am glad to know that there may be hope for applying that same principle to soybeans.

Mr. ADAMS. We will be releasing varieties probably in the next year or two on that type principle.

Senator **Cochran**. Whose jurisdiction does that come under?

Mr. **Adams**. These are individual programs within the States in the Southeast. The farmers are directing these breeding programs themselves.

Senator **Cochran**. That is very good to hear about.

Your testimony is very interesting, and I know it will be helpful to the committee as we review the appropriations bill for this next year. We thank you for being here.

Mr. **Adams**. Thank you, Senator.

Senator **Cochran**. The next witness is Mr. Lynn Sprague, who is a member of the Association of State Floodplain Managers.

We have a copy of your statement. We would ask you to proceed and give us whatever comments you would like to make at this time.

Association of Floodplain Managers

STATEMENT OF LYNN SPRAGUE, MEMBER

Mr. **Sprague**. OK. You do have the written record, and you will see that it is mainly for the budget of the USDA Soil Conservation Service.

To kind of give you some background, I am with the Association of State Floodplain Managers. It is a group that works very strongly with local and rural governments, also some of the counties in the more urban areas.

What we would like to do is just go through some of the programs that are in the Soil Conservation Service and show you how they cross over, I will say, boundaries and help with other things.

Basically under the Soil Conservation Service's operations program, they are one of the few agencies that will actually go out on a one-to-one basis or work with a small group or work with a rural community and help with something like a flooding problem or help with some hydraulic studies.

This technical assistance used to be given by a lot of agencies. It used to be that FEMA would offer some of this technical help. They still do sometimes. The U.S. Corps of Engineers used to have a small projects program. That has become limited.

The Soil Conservation Service, being that it has local offices in just about every county of the Nation, knows people by a first-name basis, is very efficient in giving some of this on-the-spot very local help.

With the new directives under the Soil Conservation Service, their operations budget has been overwhelmed with the Food Security Act and some of the other directives it has gotten. We support what they would call a full funding of these operations of $515 million which would, instead of just redirecting and stopping some of the programs, would let them do a full job of what they do very well.

As to the river basin studies, again, some of the other Federal agencies used to do this work. This is one of the few programs where they can cross political boundaries. They can cross State boundaries, town boundaries, whatever else, and group people together and do a hydraulic study and make recommendations.

Under these programs, where they used to be large project programs and they used to consume a lot of the Federal dollars in building levees or dam controls, a lot of this cost has been diverted down to the local and State levels. What we are looking for more under river basin studies is technical studies. There is an expertise and a capability at the Federal level, and we just would not like to lose that.

In terms of the locals and the States, I think it is a pretty good track record that they picked up more and more of the cost.

Under the watershed planning under the Public Law 566 Program, this program right now is taking a very strong beating. It is being viewed as some of the large watershed projects; again, flood control or drainage or whatever else.

Again, we are finding that other Federal agencies are coming to bear on a watershed approach. For instance, EPA right now under their water quality mandates is saying we would like a watershed approach. Coastal Zone Management has often used the watershed, The National Estuary Program is using a watershed.

I hate to say this, but the lower funding of Public Law 566 is throwing out an enabling law that has a lot of the things that the other Federal agencies are looking for in even wanting to develop programs.

One of the things that is being sponsored this spring and will be held next month is a conference out in Oklahoma City looking at the Public Law 566 Program to do both things. One, look at it as an enabling law which can support everything from lands for recreation, public acquisition, flood control, water quality, a lot of the things, and see if that can be used as a vehicle to blend some of these efforts we see coming at a State and local level.

Again, the funding that could be used right now would be a $12 million budget item.

Watershed operations: Under many of the Public Law 566 projects there is in place, again what I will say the Federal Government has been after for States and local people to pick up the control. When one of these watershed projects is funded, there is usually local support. There is a local group that is left with the maintenance responsibilities.

Some of these projects that were built several years ago, some of this local interest has waned, and it is a way of keeping at the maintenance. The maintenance done properly is a lot of times done on local tax dollars, and it is a cost share proposition You will see again that that is an increase of $200 million. That is mainly to go back in and not retrofit as much but reactivate some of the projects that are in place and now are getting 15 and 20 years old.

I would like to just say that in working with State and local governments, especially some of the small rural towns, right now there is no distinction between the large urban area or the small rural area. Both of them have the same laws and the same technical needs. When you go to a small town board and you see a bunch of volunteer supervisors or volunteer town board and they are being asked to deal with some of these highly technical things, they need to be able to go to places like the SCS for help.

If you have any questions, I would be glad to discuss it.

Senator COCHRAN. The other day we had an opportunity to talk with representatives of the Soil Conservation Service. One problem that SCS has is the strain on manpower resources caused by new programs authorized by Congress and having to promulgate new regulations.

One example is the Conservation Reserve Program, which is a very important program that is working and doing a great deal of good by taking out of cultivation some highly erodible lands that might otherwise end up being lost in terms of natural resources.

What happens is that Soil Conservation personnel are involved in reviewing applications from farmers and going out and actually inspecting lands, making determinations about bids, the efficacy of bids, and whether they should be approved. All this resource is being used in that way, and the Service is not able to provide what you are talking about—technical assistance, watershed work that may be needed, and other problems.

Do you see this in your experience, or has your association identified this as a problem?

Mr. SPRAGUE. I would say very much so. They just got, I will say, overwhelmed in paperwork. Some of the local offices where they had diverse technical capabilities like through the local conservation district or through others or personal interest, they kept active but the work did not stop. They got overwhelmed with some of the food security requirements.

It is supposed to be a sequence where they do their planning and they try to get things implemented by 1992. If it goes through, it would be very compatible with what floodplain managers would be after. In fact, it is a very compatible program when you think of the sediment loads and think of the highly erodible lands.

The thing that we see is, again, if they get a directive to go consume a program, it is like chasing after this dog and then the other dog gets loose and you go chase after that one. It does not give continuity to something as important as this SCS base. A local government should be able to say we have this type of problem, and that assistance should be at a constant level so that they can say, OK, this is part of our team.

What you do, you go down the road, for instance with a watershed study—for instance, I had one on the Christiania River in New Castle County, DE. We asked for that. We got our State legislators to write for a watershed study. SCS came in and said they could do that work. Two years later we are still saying we do not know if they are going to be funded. There needed to be something done 2 years ago. We had the enthusiasm and the interest to do something 2 years ago, and then it gets prolonged. Those types of things are caused by this redirection.

Senator COCHRAN. I notice you say you have about 700 members of your association around the country.

Mr. SPRAGUE. Yes.

Senator COCHRAN. Do you have any members from my State of Mississippi?

Mr. SPRAGUE. Yes, we do. I cannot think of names off the top of my head.

Senator COCHRAN. That is OK. I just wondered if there was participation in all areas of the country.

Is it pretty well nationwide? Do you have members from every State?

Mr. **Sprague**. Yes; we have members from every state. There is another floodplain managers organization, and the two have started to combine together some of their activities.

Another one is that this association would have normally gone in to testify for something like the FEMA budget or to go where they have normally gotten services.

Again, this is a very conscious push to look at the watersheds and floodplain management in a multiresource sense. You cannot just go after one program any more nor another one. There is a very conscious effort of State and local government to pool resources and not to look at just one program carrying the whole responsibility.

Senator **Cochran**. Of course, our other Appropriations Subcommittee on Energy and Water has jurisdiction over the Corps of Engineers' activities, and that is related to some of these things you are talking about today. I serve on that subcommittee as well.

One of the biggest areas we have that worries us in the Lower Mississippi Valley is the Mississippi River and Tributaries Project which has been authorized for some years. It still has some parts of it which are not complete. There have been some parts of that project that have developed a good deal of controversy in terms of whether they should be completed or not or what kind of timetable should be followed in progress on those projects.

Has your organization looked into that or taken any active role in trying to evaluate that?

Mr. **Sprague**. This is part of a conference that is coming up in May under the Public Law 565 Program or watershed project like you are talking about. It is a large scale project, and a lot of times it is viewed as either I am going to say it goes into environmental conflict or it goes into some other conflict.

We want to look at that enabling legislation and say instead of looking and saying OK, this is a large scale project, it is bad, it is just for this construction, see if we can incorporate some of the other interests to make it more of a teamwork.

We have worked on this last year some. We are supporting the Watershed Conference to look at this legislation. We think it really has some merit to use that as an umbrella to try to get the conflicts together over a working table instead of through the permit system or whatever and stopping these types of projects.

There is a need to turn down some of the larger projects that were built in the past, but there is not a need to just eliminate all of them. There has to be a balance, and it could be done better at a working table instead of in the permit system.

Senator **Cochran**. Your testimony is very helpful to us, and the Soil Conservation Service, particularly, is a very important agency. We recognize the importance of what they do, and we hope the appropriations that we can make available this year will be adequate for the projects that you talk about.

Thank you very much for being here, Mr. Sprague. We appreciate your taking time to testify.

At this time I am going to yield the chair to somebody else, but somebody else is not here. I have some other commitments that I have made at this time, and I am going to declare a short recess until we can procure a chairman to preside for the balance of the afternoon.

The subcommittee will stand in recess subject to the call of the Chair.

[A brief recess was taken.]

Senator **KERREY** [presiding]. The committee will come back to order.

The next witnesses we will hear from are Dr. Buford Nichols of Baylor College of Medicine, accompanied by Mr. Gayle McNutt.

BAYLOR COLLEGE OF MEDICINE

STATEMENT OF DR. BUFORD NICHOLS, DIRECTOR, CHILDREN'S RESEARCH CENTER

ACCOMPANIED BY D. GAYLE McNUTT, DIRECTOR OF COMMUNICATIONS

Dr. **NICHOLS**. Thank you very much, Senator Kerrey. It is a privilege for us to appear again before our friends on the subcommittee.

We are very pleased that during this past year we dedicated the new facility for the Children's Nutrition Research Center. This is a USDA Agriculture Research Service Nutrition Center. The building was completed in the early fall, and the dedication took place in October.

The point that we want to raise today in our testimony is that the center is now ready to expand its program and fully utilize the unique resources of this building to meet the congressionally mandated mission.

Mr. McNutt here is going to point to the third floor of the center. The third floor is the location for 12 small research apartments for mothers and their children. It is here in what we call the metabolic unit that detailed observations are to be made concerning food needs of children and their mothers. Here, for instance, a healthy child can participate in studies that measure the way that tracer labeled foods are converted into rough carbon dioxide. This research is needed in order to determine what happens to foods after they are eaten and how these foods contribute to growth of children.

This work will help our investigators make needed advances in the understanding of food needs for pregnant and nursing women and their children.

In order to fully expand the work of the metabolic unit, we are asking for a needed $2 million increase for full operation of this unit.

In addition to the work with live-in volunteers on the metabolic unit, we need to expand the work in volunteers living at home. We call the work of this unit our epidemiology research unit. Studies conducted by this unit establish the normal standards for food intake in growth for healthy children and mothers.

These data will be used and are already being used as standards for Federal nutrition programs. For example, our future studies on iron needs will be used to help determine the effectiveness of the WIC Program and the school lunch programs. We are asking for an annual appropriation increase of $2 million needed to expand the work of the epidemiology research unit.

On the top of the building you will see five greenhouses. These are part of our food bioavailability unit which studies the digestion and use of individual nutrients such as vitamins and proteins in pregnant and nursing women and their children to determine food needs. These five greenhouses are used to label foods with stable or nonradioactive isotopes or tracers needed for the studies in the metabolic research unit and at home to determine the food needs of pregnant and lactating women and their children.

For instance, we pioneered in the use of Carbon 13 labeled rice cereal for our digestibility studies. We need to expand these studies to include other commodities which can be grown and labeled in these new greenhouses. An annual appropriation increase of $2 million is needed to fund fully the food bioavailability unit.

These three units which I have described were designed to answer specific questions of national nutrition importance and are the basis for our need for a total increase in $6 million in the appropriations.

Expansion of the scientific program in 1990 is timely with the completion of our new building and with the acquisition of new scientific equipment during the past two years. The needed research programs will answer many important national questions concerning the effects of food on healthy human growth, development and reproduction. This information will guide the existing and future Federal child feeding programs and improve the quality of life for all American children.

I want to thank this committee for the support that you have given us over the past decade. Our progress to this point has been a reflection of your commitment to Children's Nutrition Research. I would be very glad to answer any questions concerning maternal and child nutrition or concerning these needs which I have outlined for the full development of the CNRC Program.

Thank you for letting us appear before the committee.

Senator KERREY. Thank you, Dr. Nichols.

First, in addition to USDA are there any non-Federal users or any other users of the nutritional center?

Dr. NICHOLS. We have a very warm relationship with the $3 billion a year infant formula and food industry. Many of the questions which we address at the more fundamental level are questions that they have raised to our awareness. As our research proceeds, they are very sensitive to our observations.

I think you will see a very quick transfer of this information to the children of America.

Senator KERREY. Let me try to open up some of those words.

You have a warm relationship with them and they are sensitive to your results. Are they supporters? Do they provide funds on a contract basis?

Dr. NICHOLS. No; they do not support in a financial way. They come to our annual scientific review meeting and participate in the debate and discussion. The scientific issues are further elaborated, teased out, and discussed. Their support is intellectual.

They do not provide economic support because we are working at a more basic level. Their level of support is the new market end.

Our level of research is in the fundamental issues about the dietary needs, the food needs for these populations.

Mr. McNutt. Mr. Chairman, I think the answer to your question is no, it is a totally federally funded USDA facility under the ARS. There are some cooperative research programs funded by NIH, but those are on sick children. These are all on well children.

Senator Kerrey. Do you have information you can share with me? I do not want to take too much time here this afternoon. We will be here all day long, and there are other witnesses whom we need to hear from.

I am, however, interested in the methodology used in these studies and the use of community resources that are available in Houston and the methods used not only to distribute the results of the research but to influence research and related efforts that are being done in the communities.

One of the reasons that I ask you this is that we are in the process in my community of trying to put together a 5- or 10-year project to reduce the incidence of infant mortality and morbidity, in particular among minorities. We are trying to put together a methodology by which to measure the efforts that we use.

You may have some information that may be useful as we try to put together a program to try to accomplish that objective. In fact, I would observe Senator Bradley and Senator Daschle and others in the Senate are also concerned about infant mortality and are trying to figure out exactly what our response should be.

Dr. Nichols. Are you speaking about general infant mortality or the sudden infant death?

Senator Kerrey. General infant mortality, and trying to reduce the rate. Part of the problem is that the good people of Nebraska elected a Senator, not a public health official. They elected somebody who is concerned with public health, but does not have the capacity to develop the methodology that is required.

What I am trying to do is cooperate with community leaders and urge community leaders, in fact, to do more. Right now we have more questions than we have answers.

Dr. Nichols. First of all, I would be very pleased to discuss this at your convenience, but I would like to point out one of the new initiatives. Embedded within these three units is an expansion of our work from the lactating mother and her child to one step backward, the pregnant lady.

There are many issues involved with this, and I would not want you to think that the sole solution to preventing low birthweight deliveries is nutrition, but it plays a very important role.

Certainly the major contributor to infant mortality in the United States today is the high incidence of low birthweight in the disadvantaged populations. Our studies concerning the setting of standards for normal growth of the fetus and normal dietary intake of the pregnant lady will allow us to begin to look at how this might vary in the disadvantaged population which we will also eventually come to study.

So in terms of a methodology, the need is first to know what the standard is and then to begin to look at the deviation from that standard.

Senator KERREY. As a part of the broader, more noble mission of trying to get me to vote yes on your appropriation, you may wish to supply me with some additional information that might be useful at home. I would appreciate it.

Dr. NICHOLS. If you do not mind, I will just drop you a line with some information I think you might be interested in.

Senator KERREY. Thank you, and thank you for your testimony.

The next witness is from the Center for Science in the Public Interest, Charles Mitchell.

CENTER FOR SCIENCE IN THE PUBLIC INTEREST

STATEMENT OF CHARLES MITCHELL, STAFF ATTORNEY

Mr. MITCHELL. Thank you, Senator.

I am Charles Mitchell, staff attorney for the Center for Science in the Public Interest. We are a national nonprofit consumers organization focusing on food and health issues with about 150,000 dues-paying members.

The two issues that we wish to address the subcommittee about today are both matters we discussed last year concerning the Food and Drug Administration budget. Both of these matters were addressed in the subcommittee's report, and we are disappointed with the response that FDA has made to that language.

The first matter I would like to discuss is the problem of deceptive food labeling. Last year the subcommittee directed FDA during this fiscal year to initiate rulemaking to define such potentially deceptive labeling claims as low fat, light, and natural. The need for this kind of action has become even more clear during the past year as the Surgeon General and the National Academy of Sciences have both come out with major reports about the link between nutrition and health.

The good news is that Americans can substantially cut their risk of cardiovascular diseases, cancer and other leading killer diseases of Americans if they will eat less fat, saturated fat, cholesterol and sodium and more foods that are rich in complex carbohydrates and dietary fiber.

The bad news is the present food labels do not enable consumers to follow that advice in choosing their everyday diet. As the Commissioner of FDA himself said in an article in the Washington Post last week, food labels are almost unintelligible. Part of the problem is that nutrition information only appears on about half of the foods. That is something that will have to be addressed by authorizing legislation.

What FDA can do now is to define the sorts of claims that the committee's report mentioned last year. Part of FDA's failure is the result of limited resources. Unfortunately, the agency has gone to the point of broadcasting these limited resources to the food industry to the point where companies are taking calculated risks that they can get away with marginal or even deceptive claims.

Another part of the problem is FDA's allocation of priorities. Instead of taking action about these claims that are already confusing consumers, the focus of FDA's rulemaking activities for the past few years has been opening up a whole new area of claims that would have to be enforced, express disease prevention claims or health claims that have been prohibited for 80 years.

Right now, that rule is being held in the Office of Management and Budget, and FDA is talking about the need to possibly repropose the rule starting all over again.

Meanwhile, the Commissioner has informed us that he does not expect a regulation on low fat labeling, a high priority, to be published for another 18 months, nearly the end of the next fiscal year.

What we would ask the subcommittee to consider this year is to expressly allocate a portion of funds; if not additional funds, a portion of the amount that has been proposed specifically for rulemaking and enforcement activities to do away with the perception that food labeling is totally unrelated.

The subcommittee might also consider prohibiting FDA from doing anything to allow health claims until these other claims have been addressed by rulemaking.

The second issue concerns a cancer-causing contaminant in alcoholic beverages called urethane. This is an unwanted byproduct of the manufacturing process that appears in high amounts in some alcoholic beverages but not at all in others.

Last year the committee asked FDA to publish the information on the levels of urethane that are present in various brands or various alcoholic beverages. To date, FDA has not done such a publication. We understand they may be doing so, but at this point we would simply like to emphasize that what consumers need is information on the amounts of this chemical that are in specific brands of alcoholic beverages, because that is really the only kind of information that consumers will find practically useful.

That concludes my prepared remarks. I would be happy to answer any other questions.

Senator KERREY. Mr. Mitchell, in your testimony you state: "even if the industry meets the target levels of urethane set out in the agreements." What agreements are you referencing?

Mr. MITCHELL. In December 1987 and January 1988, the FDA entered into voluntary agreements with the manufacturers of wine and whiskey calling for those industries to pursue a reduction in the amount of urethane in their products according to a timetable.

Senator KERREY. It is wine and whiskey?

Mr. MITCHELL. That is correct, Senator.

Senator KERREY. How does urethane get in wine and whiskey?

Mr. MITCHELL. It is somewhat of a mystery. It has to do with the manufacturing practices. Both industries have been researching this and trying to figure out how it develops. They only have a part of the answer to this point.

Senator KERREY. Chemically, is urethane a petroleum derivative?

Mr. MITCHELL. There are a variety of things that go by the name of urethane. There are polyurethanes and so forth. This particular urethane it is believed forms as a reaction between alcohol and other chemicals that are present in the wine.

Senator KERREY. So it is synthetically produced, then? It is not a contaminant from some other source?

Mr. MITCHELL. It is a byproduct rather than an outside contaminant, that is correct.

Senator KERREY. The OMB problem you reference is a recurring problem, it seems to me, not just in your particular area but in others as well.

In your judgment, do you think we need a statute that limits the amount of review time that OMB can give to proposed rules?

Mr. MITCHELL. In some instances we would prefer to see that OMB review simply not be allowed.

Senator KERREY. That would limit the time. [Laughter.]

Mr. MITCHELL. Failing that, it does make sense to limit the length of time.

Senator KERREY. You are saying that in some instances you seriously believe they should just not have a review?

Mr. MITCHELL. That is right because of the sort of problem that we have seen here. In the case of the health claims rule, FDA received a broad spectrum of comments from the American Medical Association on one extreme saying that health claims should not be allowed at all to members of the food industry saying that FDA's proposal was too restrictive.

We came down somewhere in the middle. FDA took all of those comments into account and came up with what it wanted to be the final rule.

After that, OMB has held up the rule because it does not believe it is solicitous enough of the industry interest.

Senator KERREY. Have they made that statement publicly?

Mr. MITCHELL. They have expressed their reservations to us in a meeting with the Center for Science in the Public Interest and other concerned organizations.

Senator KERREY. But they have made no declaration that they are not going to release this rule to approve it because it is not solicitous enough?

Mr. MITCHELL. There is nothing in writing on that point, but that is——

Senator KERREY. That is your interpretation?

Mr. MITCHELL. I believe I am fair in saying that that is the opinion of people within the agency and other interested groups, but they have not put anything in writing on the record.

Senator KERREY. So in your judgment should this be a case by case and not a functional time requirement for the completion of a review?

Mr. MITCHELL. Well, certainly if OMB is going to be involved there should be a time limit. In a situation like this, I think a good case can be made that OMB involvement really has not contributed in any positive way to the development of a wise policy on health claims.

Senator KERREY. Although I suspect that the industry thinks that OMB involvement has contributed in a positive way to the process. I assume there is divided opinion on this.

Mr. MITCHELL. I believe the National Food Processors are testifying later today, but I believe even industry may be frustrated by the prolonged period of uncertainty about exactly what FDA is going to be allowing. Of course, you may want to take that up with them.

Senator KERREY. Thank you very much.

The next witness is Dr. Edward Menning of the National Association of Federal Veterinarians.

NATIONAL ASSOCIATION OF FEDERAL VETERINARIANS

STATEMENT OF DR. EDWARD L. MENNING, EXECUTIVE VICE PRESIDENT

Dr. MENNING. Mr. Chairman and members of the committee, the National Association of Federal Veterinarians appreciates this opportunity to discuss a couple of specifics with the FSIS and APHIS appropriations. I will cut down my written remarks to 5 minutes.

One, there is not a food scientist that I am aware of that will not rate microbiological risks in food many, many times greater than residue. Yet, the funding is just the reverse, as is the American hysteria. We, therefore, recommend that a rational nonhysterical consumer education program be mandated to be run by the USDA and public health agencies as well as FSIS should be induced to do more work in the microbiological area and to motivate processors and slaughter plants to do the same.

A second point with FSIS is the Slaughter Staffing Task Force Report which is a giveaway to the union. After everyone agreed to cut back on certain inspection activities, they now are creating new jobs at higher grades in slaughter plants only for union members.

The veterinary supervisors do not wish this, and by FSIS' own estimates it will cost $1.5 million per year. We recommend that they not be authorized to fund such a program and that the $1.5 million saved go toward the national education program on microbiological contaminants of food. So it ends up not costing a penny in the budget at least.

Senator KERREY. Are these the food technologists' positions?

Dr. MENNING. No, sir; these are strictly food inspectors, which they are trying to install now a food inspector supervisor in between the veterinarian and the food inspectors. Every slaughter plant has a veterinarian in charge.

Senator KERREY. I know what you are referencing. I am with you now.

Dr. MENNING. They are brand new positions, and they cannot even fill the present already-authorized positions they have, which is another reason we are against it. It adds to nothing.

In APHIS, a couple of things. One, animal disease control. We are quite concerned that brucellosis and TB eradication progress to where it is eradicated.

We also strongly feel that the Tick Eradication Program in Puerto Rico, Caribbean, et cetera be refunded so that we again do not get cattle fever ticks in Texas and the Southeastern United States which we had eradicated as of 1943.

Another large concern with APHIS is that if people think the European economic community's hormone is disastrous on some segments of meat, they have nothing to see until—not if but until and when—a foreign animal disease is introduced, because they will be sometime in the future. There is getting to be too few persons, not just veterinarians but the resources, to form an adequate minimum first strike against foreign animal disease.

We strongly recommend that APHIS be funded such as to keep the personnel at the level that is in my report, approximately 250 more than they presently have purely for that purpose. These persons would then continue to do work in pseudorabies, bluetongue, et cetera, et cetera.

This is an extremely important and drastic thing that America will face because all types of diseases, both food, foreign, and animal, are being introduced daily into the United States.

Mr. Chairman, this concludes my abbreviated remarks, and I will try to answer any questions you may have.

Senator KERREY. Let me make it clear. You are saying that it will take 250 staff-years and $22 million more, but at that level we can eliminate the risk of brucellosis and other animal diseases of that kind?

Dr. MENNING. The $22 million would include refunding the Tick Eradication Program which has been eliminated from the requested budget as well as giving moneys back that they had had in fiscal year 1988 and before to maintain the staffing level such that the first strike, we feel, would have its best chance of succeeding quickly.

It takes a lot more people than that to control, say, foot and mouth disease or rif valley or rinderpast or whatever may come in. No one can afford to fund for the maximum people needed, but you cannot afford not to fund for the minimum required for the first strike because then they mobilize the military as well as State resources, et cetera.

Senator KERREY. I believe you are focusing on something that is very important, and I am concerned that we might not be doing as much as we should to bring the problem to the attention of the full Congress.

Do you have other allies in this effort? I assume the pork producers, for example.

Dr. MENNING. Yes, sir; I believe most of the animal producer groups as well as the American Veterinary Medical Association, and I believe also the American Meat Institute as well as others feel the same way, if not as strongly some more strong, some maybe a little weaker.

Senator KERREY. I have to tell you I am amused by your statement that we should mandate a nonhysterical consumer education program in the United States. Apparently you are concerned that there has been a significant amount of hysteria recently on additives?

Dr. MENNING. Yes, sir; as well as hysteria on microbiological things such as salmonella in poultry.

Senator KERREY. Why is that?

Dr. MENNING. The media has a good feel for determining what Americans will become hysterical about, and then they aim at that to sell their papers. That is, in a humorous fashion, I think the reason.

Senator KERREY. I agree with you. The profitable media have a pretty good sense of the market and what it takes to be profitable. They are market oriented, just as we want American agriculture to be.

Now why is the American consumer, do you suppose, susceptible to hysteria in regard to food?

Dr. **Menning**. I think they are susceptible to it because many of the things that are coming out now are very unknown or foreign to the average consumer, and the more unknown it is such as the residues of pesticides and insecticides, maybe some veterinary drugs, and the more they attach words like cancer producing or carcinogenic or whatever to it, the more hysterical they become.

This then also relates to some of the bacterial diseases like salmonella, because one can cite that there are about 2 million cases a year and about 2,000 deaths per year in the United States.

I do not believe in doing that——

Senator **Kerrey**. There is nothing like stating that one of the symptoms of eating the food is death to cause you to be alarmed about eating it.

Dr. **Menning**. That is correct, and this is what comes out in a lot of the media. The error there is——

Senator **Kerrey**. I guess what I am saying is that it seems to me that underlying the media's reporting of it is the fact that the consumers of the United States of America that are concerned.

If I were to take the statement that you made and mandate a nonhysterical program based upon that single assumption, I would simply mandate that we get rid of television, radio, and newspapers or those media who are market oriented. The marketplace is concerned, it seems to me, for a variety of reasons, not the least of which is that increasingly Americans do not prepare their own food and they have to trust processors to do the preparation.

Increasingly, we do not have the interest in preparing our own food. As we go into faster and faster food products and increased convenience, we are specializing still more.

So it seems to me that there is a reason why in 1989 there is increased hysteria just as there was when we became heavily dependent upon somebody to fix our automobile for us all the time rather than doing it ourselves.

I do not know if we will respond with a very good policy if we begin by attempting to observe what is going on in the world.

Dr. **Menning**. No, sir; I agree with all of those remarks. My comment on nonhysterical was to have a traditional public health based type program. The average American anymore is very poorly educated in how to handle their food in their own home. There is no longer grandmother at home to teach them; few people take home economics anymore.

Furthermore, the media even with its hysteria does not usually give the underlying simple techniques to not contaminate your own hands, counter, et cetera at home and realize the fact that for all probability all poultry, red meats, seafood even, should be considered contaminated with disease organisms. Some do very well, but most have not.

Senator **Kerrey**. I think I agree with much of what you are saying. I was in the restaurant business prior to doing this for a living. We have a little rule in our business. My partner and I sit in the kitchen after putting 100 hours into a wonderful new menu item. We think it is the best menu item on the planet. We give it to our customer, and if our customer says to us this is garbage, then it by definition has just become garbage.

If our customer says to me we are afraid of eating your food as a consequence of something we believe you are doing, similarly I think my response ought to be that you are right, it must be something I am doing.

In other words, I think that here is a parallel to the customer is always right principle. Otherwise, it seems to me that our policy response is going to be wrong if we do not acknowledge that something in 1989 is different than it was in 1979 or 1969 to cause the consumers to be increasingly concerned not just about additives but about microbial invasion into what they are buying from me and other folks out there.

Dr. **Menning**. That is absolutely correct. Of course, the major thing that is different is the advance in technology. Technology has caused foods to be shipped much farther hither and yon. It is much more now being sold in pouches that are partially pasteurized, not fully cooked, et cetera.

So the control from the consumer has been removed plus in all the advancing technology there has been no advance in controlling the microorganisms. As a matter of fact, all data shows they have increased.

So the consumer has lost control, but they do need to be made aware of that as well. It does not cost that much. The first thing would be to educate them to prevent them from getting any of these in their home as much as possible.

A woman just died in December in Oklahoma from listeriosis. CDC is working the case right now. She died of listeriosis from a turkey frankfurter because she had bought the turkey frankfurters, put them in the refrigerator, ate one a day, and listeria grows under normal refrigeration. She also happened to have cancer and was old, so her immune system was down. Because of that we have the first case in the United States of that from turkey.

Senator **Kerrey**. I am just reminded that I had better pursue this interest between you and me at some later date; otherwise, the other witnesses will not get to testify.

Thank you very much.

Dr. **Menning**. You are quite welcome.

Senator **Kerrey**. The next witness is from the National Association of Home Builders, Mr. Larry Summer.

NATIONAL ASSOCIATION OF HOMEBUILDERS

STATEMENT OF LARRY SUMMER, RURAL COUNCIL CHAIRMAN

ACCOMPANIED BY PATRICIA ECONOMOS, LEGISLATIVE STAFF

Mr. **Summer**. Mr. Chairman, I have with me today Pat Economos from our legislative staff of the National Association.

Mr. Chairman, my name is Larry Summer, and I am a builder of rural housing from Cherryville, NC. I appear before you on behalf of the 155,000 members of the National Association of Home Builders and as chairman of the Rural Housing Council of the Home Builders Association.

It is a pleasure to appear before you to present our views on the fiscal year 1989 agricultural appropriations bill which provides the funding for the rural housing programs.

Yesterday, you are aware, the Senate Budget Committee passed its budget resolution which provided an additional $100 million for the rural housing programs. In this regard it is important to point out that there is a shortage of affordable housing in rural areas, and it is desperately needed by the low-income families and the elderly in these areas. This additional funding would help reduce such shortage.

The Congressional Research Service has documented production shortage in rural areas at 75,000 units per year. At the same time, there has been a severe reduction in the annual appropriations for the rural housing programs.

Over the past 10 years funding from the rural housing insurance fund has dropped 50 percent. More alarming, the number of housing units reduced has dropped by 70 percent.

Additionally, the level of substandard housing units in the rural areas is estimated at $2 million, and the government tax policies have diminished builder participation in construction of new replacement units.

Mr. Chairman, even under these circumstances the Bush administration is recommending that a voucher system be substituted for new construction units under the Farmers Home Administration programs.

The fiscal year 1990 budget proposes that only $490 million be budgeted to fund rural housing programs. This amounts to a reduction of 75 percent when compared to last year's appropriation of $2.1 billion. The voucher system as proposed by the administration will not work for rural housing programs for two reasons. There is a lack of suitable housing in the rural areas, but also because it does not have sufficient funds to meet the overwhelming demand for the housing units that are needed there.

Only 6,000 of the 20,000 vouchers proposed in fiscal year 1990 are targeted to serve new households, 10,000 are needed to extend existing contracts, and 4,000 are needed for the prepayment options provided under the 1987 Housing Act. This contrasts to the approximately 45,000 units that were served under the Rural Housing Program last year.

Applications for rural housing programs far exceed the number of units that the current funding allows us to serve. Even the proposed funding level will not meet the needs of these people.

Mr. Chairman, we are pleased that this subcommittee has fought to retain rural housing construction programs over the years, and we urge you to provide adequate funding again this year. Housing already has taken more than its fair share of the cuts. If other segments of the budget had taken the same proportionate cuts as housing, we would have a budget surplus today. Any further reductions in the housing budget would seriously undermine the Nation's commitment to affordable housing for all Americans.

It is sad when such a broad segment of families with lower incomes have no such thing as affordable housing. The poor people paying more than 50 percent of their income toward rent has increased substantially, and for them home ownership has become an elusive dream.

Participants in the rural housing programs are often on the verge of poverty. It has been estimated that over half of the rural housing assistance under Farmers Home goes to households at or below 50 percent of median income. A recent study documents that a rural working family is twice as likely to live in poverty as its urban counterpart.

A reduction in funding for the construction of new low income housing units in rural areas would almost eliminate the opportunity to obtain affordable housing for the poor working people in these areas. It would substantially add to the ranks of the already increasing homelessness across the United States.

Mr. Chairman, we also urge you to provide funding for the section 515 prepayment buyouts and the Section 502 Loan Guarantee Demonstration Program, both of which are included in the 1987 act. Even though funding for both programs is to come directly out of their budget, appropriation language is needed from this committee.

The Secretary of Agriculture testified last month in favor of exempting direct loans made to finance sales of inventory properties from sequestration provisions of Gramm-Rudman-Hollings. We urge you to exempt all FmHA programs from sequestration provisions. In 1986, sequestration cost $100 million reduction in programs vitally needed to assist poor rural families and the elderly.

At the subcommittee's hearing with Farmers Home Administration last month, it was suggested that private sector developers should be allowed to participate in converting section 502 inventory properties to the section 515 rental program. This provision of the law is currently limited to nonprofit organizations or public bodies who have only completed four projects since they were authorized in this area.

It cost the Government approximately $3.5 million a month in interest and maintenance costs to hold the properties currently in inventory. If the private sector could participate in this program, it would certainly reduce this inventory.

In conclusion, we would urge you to approve adequate housing at adequate levels of funding for the rural housing programs, including sufficient levels of rental assistance for new construction to provide the needed housing for low income and elderly Americans in this country.

Mr. Chairman, that concludes my remarks, and I would be happy to respond to any questions.

Senator KERREY. I appreciate your opposition to the use of vouchers. I hope that this committee is able to hold to the Budget Committee's recommendation. I personally intend to oppose the use of vouchers and hope that we are able to get the additional money appropriated for rural housing.

I am concerned at the same time about one of the statements you made in here, and it provokes a question. Your statement was that 50 percent of low and moderate people's income is being used for rent. I assume you mean rent and principal and interest where a house is involved, or is that just rent only that you are referencing?

Mr. SUMMER. At times that comes to be a rent only segment, sir.

Senator KERREY. Let me state ahead of time that I pose this question in addition to my support for the preservation of the deductibility of mortgage interest. I do not want to propose it as an alternative. So let's assume we are going to preserve the deductibility of mortgage interest.

What would happen to rural housing and the availability of rural housing if we were to permit people who rent to deduct rent as well from their income tax?

Mr. SUMMER. What would happen to rural housing?

Senator KERREY. Is that something that the National Association of Home Builders has ever discussed or considered, or is it talked about ever in quiet moments?

Ms. ECONOMOS. Sir, as you are probably well aware, we very strongly want the mortgage interest deduction preserved. As far as the renting of housing, we have no official policy on that particular aspect, although I know it has come up and was probably more heated in prior years than even this one in particular.

So we do not have an official policy on allowing people who rent to also have an interest deduction as well. I do not know what the added cost of that would be to the Federal Government. I know some of the complaints today with the mortgage interest deduction is the total dollar cost that is involved there.

Senator KERREY. My assumption would be that it would change the mix of housing stock and probably shift it more toward multifamily than single-family units, but I do not know. I raised the question not so much to engage in a discussion of it here but, really, to ascertain, as I said, whether or not your association has ever considered that and had anyone do an evaluation of what would happen.

Mr. SUMMER. I do not know, but I expect——

Senator KERREY. It seems to me that in rural areas very often you find people who are willing to build and rent, but what we have in a rural community very often, and I am sure you are aware of this, is lower income in general. The income level in rural America tends to be lower than in urban America, and the ability to afford some things is, therefore, diminished.

We suffer very often from the absence of rental stock.

Mr. SUMMER. Yes, sir; I guess one of the problems that might exist with that would be that the income levels of these people who we are talking about where we are trying to serve the low-income people, the amount of tax and the impact on their tax bill by deducting that rent probably would not be as great an item as we might see with the people who are paying more and have a higher income.

Ms. ECONOMOS. There is legislation. The Farmers Home 1949 Housing Act which has jurisdiction over rural housing does allow conversions of 515 projects to home ownership. That is not exactly answering your question, but there is a program where you could gain a home ownership aspect from a rental type of housing.

Senator KERREY. If you do at a later time come up with a response, I would be interested in knowing what you all thought would happen with that change.

Mr. SUMMER. We certainly would be glad to do that.

Ms. ECONOMOS. We could look into that and supply you with the information.

Senator KERREY. Thank you very much for your testimony.

Mr. SUMMER. Thank you.

Senator **KERREY**. The next witness is U.S. Wheat Associates, Mr. Don Sherrill, board chairman.

U.S. WHEAT ASSOCIATES

STATEMENT OF DON SHERRILL, BOARD CHAIRMAN

ACCOMPANIED BY NELSON DENLINGER

Mr. **SHERRILL**. Senator, I brought with me Mr. Nelson Denlinger from the U.S. Wheat Associates office.

I am Don Sherrill. I am a wheat farmer from Oklahoma, and I plead guilty. Please do not shoot.

Senator **KERREY**. You are in good shape.

Mr. **SHERRILL**. This afternoon I would like to speak in support of additional funding for the ARS wheat quality laboratories. The four laboratories are the Soft Wheat Quality Laboratory in Wooster, OH; the Hard Winter Wheat Quality Laboratory in Manhattan, KS; the Western Wheat Quality Laboratory in Pullman, WA; and the Hard Red Spring and Durham Wheat Quality Laboratory in Fargo, ND.

Funding for these laboratories has been essentially unchanged for the last 10 years while inflation and the cost of personnel, equipment and materials has resulted in a gradual deterioration in the services and caliber of the personnel they are able to offer. Our wheat producers believe that this is a situation which, if not reversed, will affect the ability of the United States to compete with other major exporters of quality wheat.

The mission of these laboratories has never been more important than it is today. This mission includes but is not limited to: The evaluation of wheat breeding lines for quality, including milling and end product performance; the improvement of the efficiency and relevance of quality test; and, three, support for the USDA regulatory action agencies and the industry groups in problemsolving, particularly with regard to wheat exports.

Now the sense of the importance of this mission can be gained from a recently released OTA study, "Grain Quality in the International Trade, a Comparison of Major U.S. Competitors." This study highlights the central role that variety, selection, and control play in marketing systems of the three competing wheat exporters; namely, Canada, Australia, and France.

While France does not use its system to export its best quality wheat, both Canada and Australia, by carefully controlling the varieties which are marketed, are able to achieve a high level of milling and baking quality uniformity. Such uniformity is increasingly important as importing country wheat processing industries become more highly automated, as highly automated baking equipment and pasta processing equipment generally requires more uniform raw materials to perform well.

In the United States there is no central governmental control over varieties that may be released, grown and marketed. Some of the major State universities involved in variety development do use their own strict milling and baking quality criteria, while other universities and private breeders seem to place much greater emphasis on yield.

However, the U.S. wheat varieties even within classes of wheat are not very uniform, and importers often mention unfavorably the lack of uniformity of U.S. wheat exports.

The wheat quality laboratories can play a major role in helping to address this variety, development and marketing problem. In fulfilling the mission defined above, the laboratories can serve as a variety information clearinghouse. Plant breeders need to be advised on whether the lines they are working on contain desirable or undesirable quality characteristics, and producers need to be advised through published information of the quality characteristics of the varieties they are considering and the possible economic impact of these characteristics.

Two, to develop and/or test valuable new technology. Plant breeders need technology which can determine quality on very small samples which may be all that is available early in a breeding program. This can save literally years of efforts spent increasing the amount available of varieties that prove to be unsatisfactory.

Grain handlers need rapid, simple quality tests to determine milling and the end use qualities of wheat so that lots can be segregated accordingly and the buyers' needs satisfied. Both handlers and plant breeders need tests that are more relevant to milling and the end use quality than many of those available today.

There are no other institutions which can fill the needs of industry as well as the regional wheat quality laboratories. With the increased interest and concern regarding quality, the need for additional research is growing rapidly.

Unfortunately, the resources available in the laboratories has steadily declined. While a decade ago the four laboratories had a total of 12 scientists, that number will soon be down to 7 with the retirement of 2 more in the next few months. Without a substantial increase, there is no doubt that ARS will have to consolidate the laboratories into a single location and further reduce the services offered.

It will also mean that the U.S. marketing system will have even fewer resources available to improve the quality of its wheat exports or even to measure that quality.

Current funding for the laboratories is $1.5 million. We would propose that funding be increased by $2 million to a total of $3.5 million. While it is a large percentage increase, such an amount is needed to reestablish a high competent staff in each of these laboratories and to finance the equipment necessary to allow the laboratories to play the role they should in the development and testing of new technology. Such an effort is needed if the quality challenge presented by their exporters is to be met.

I thank you very much.

Senator KERREY. Is there any chance, Mr. Sherrill, that if you do not get the money they could consolidate those four laboratories up in Fargo, ND? [Laughter.]

Mr. SHERRILL. That is getting pretty far north, Senator. [Laughter.]

Senator KERREY. You reference the OTA study. I love it when people read the same report and reach different conclusions. Some seed producers in Nebraska read it and concluded that the OTA ought to be abolished.

I just came from a meeting with Senator Daschle, who you should be in contact with, by the way. He is chairing the Research Subcommittee. We talked a great deal about grain quality. He read the OTA study and recommended that I read it. He thought it was good.

Mr. SHERRILL. It is a situation that I guess you can draw two conclusions from, Senator. There are some things in there that I think are pretty good and some that you might want to throw away.

We are all very interested in quality, and, as you well know, Nebraska has been a forerunner in this thing. There are, however, other things besides dockage, and we are finding that hardness is becoming a factor. As we have bred wheat to make yields, sometimes our hardness is not as good as we would like for bread wheat and these other issues.

It is a very complex thing, and we really need help.

Senator KERREY. As I said, Senator Daschle is chairing the Research Subcommittee, and we will probably spend a lot of time on this issue of grain quality.

Mr. SHERRILL. I will be very pleased to do that. Thank you very much.

Senator KERREY. I am going to turn this over to the real Chair now, Senator Burdick.

Senator BURDICK [presiding]. Next is the National Association of State Departments of Agriculture.

NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

STATEMENT OF JAMES B. GRANT, EXECUTIVE SECRETARY

ACCOMPANIED BY BOB AMATO, ASSISTANT EXECUTIVE SECRETARY

Mr. GRANT. Thank you, Mr. Chairman. It is a pleasure to be here today. I am J.B. Grant, executive secretary of the National Association of State Departments of Agriculture. I am accompanied today by my associate, Mr. Bob Amato.

I will be very brief, Mr. Chairman. NASDA represents the Departments of Food and Agriculture in 50 States, the U.S. territories of Guam, American Samoa, Puerto Rico, and the Virgin Islands. Many of the programs that we carry out at the State level are in cooperation with the U.S. Department of Agriculture in animal and plant health programs and also in many marketing programs.

NASDA and the State departments of agriculture have worked cooperatively with various agencies of the U.S. Department of Agriculture for many years. Cooperative programs, jointly funded and jointly administered, are a cost effective way of carrying out necessary Government programs. They have proven successful and efficient over the years, and we believe that they must continue on a cooperative basis.

The administration's fiscal year 1990 budget calls for total user fees to fund the Agricultural Quarantine Inspection Program. This would mean a shift of $66.468 million from appropriated funds to user fees. In our opinion, this would be an unprecedented move for this APHIS program.

Although the user fee would be imposed on international travelers, we believe the subcommittee should carefully examine this proposal before imposing user fees on a federally mandated program that serves a broad constituency. This user fee precedent could set a bad example and thus open the door to indiscriminate use of such a fee.

I will combine the pseudorabies, imported fire ant, pink bollworm, grasshopper, Mormon cricket, and golden nematode programs, all which are cooperative programs between State departments of agriculture and USDA, and urge that the subcommittee fund those programs again at the previous year's funding level.

Let me speak brief about the IR-4 Program, Mr. Chairman, a program that deals in minor crops and the use of pesticides on minor crops which are very necessary to an adequate supply of vegetables and minor crops of the United States.

The IR-4 Program, the national agricultural program for the clearance of pest control agents and animal drugs for minor uses, receives 85 percent of its current operating budget from the Cooperative State Research Service special grants funding.

Since 1982 there have been no increases in IR-4's Public Law 89-106 funding. During this same time period the cost of research and the need for IR-4 sponsored food safety research has drastically increased. Currently there is a backlog of over 1,100 potential pesticide clearance projects on food uses.

Existing funding permits completion of less than 10 percent of the pesticide clearance projects per year. With reregistration provisions of FIFRA in 1988, it is anticipated that the pesticide food uses research project backlog will at minimum double. The cost to clear each project, according to the IR-4 management under current requirements is estimated at $33,000 per project. We urge the subcommittee to establish stable funding for IR-4 to a minimum level to allow this program to effectively operate.

A program that I brought before the subcommittee's attention last year, Mr. Chairman, was the Russian wheat aphid, and this year we strongly believe appropriated funds be allocated toward eradicating the Russian wheat aphid. The aphid is an invading pest of wheat, barley, and other small grains.

Currently in 15 States the pest has become a significant economic threat to agriculture, affecting over 53 million acres of wheat and over 7 million acres of barley. Within those 15 States, in 1987 crop losses exceeded $53 million in 10 Great Plains States, and losses were expected to be significantly higher in 1988.

In 1988 under our auspices a strategy was developed to reduce the economic loss caused by the Russian wheat aphid. A redirection of resources has been made by both Federal and States agencies. Yet, those resources are still inadequate to address this problem.

The Russian wheat aphid technical advisory group which we sponsored has determined that an additional $9.5 million per year for 10 years is needed to implement the central components of this program. We support this recommendation.

Again this year, the administration is calling for the elimination of funding for the Federal Seed Act, the Wholesale Market Development Program, and the payments to States programs. These programs are necessary to support the overall basis of agriculture and have always maintained a vital cooperative endeavor.

We believe that the defunding of these programs would be most unwise, and we respectfully ask that these programs be fully restored to the fiscal year 1989 funding levels.

In the area of foreign market development, we urge you to appropriate $115 million, $16.4 million more than the administration's request, for the Foreign Agricultural Service in fiscal year 1989. Funds to support foreign market development must be maintained at an appropriate level to allow FAS to operate and staff its overseas offices and provide adequate resources to market cooperators.

In the area of the Targeted Export Assistance Program, we urge you to appropriate $325 million for the TEA Program as called for in the 1989 farm bill. We believe that successes that have been achieved by the TEA Program justify the moneys originally authorized.

In conclusion, Mr. Chairman, we feel agriculture is on its way to recovery after years of hardship; however, we still have a long way to go, as this subcommittee is very much aware. We believe that now is not the time to reduce or eliminate programs that are necessary to a viable agriculture. It is imperative that continuity of programs basic to agriculture be maintained and the relative relationship of the vital cost sharing programs not be disturbed.

It is a pleasure to be here, Mr. Chairman, and Mr. Kerrey, and I will attempt to answer any questions you might have.

Senator BURDICK. Thank you.

You have asked for an increase in pseudorabies. How much?

Mr. GRANT. We ask that the Pseudorabies Program be refunded at the 1990 level, which I believe was $2.672 million.

Senator BURDICK. Do you mean 1989 or 1990?

Mr. GRANT. We are asking that the administration has marked the Psuedorabies Program for a 10-percent reduction or $272,000 from its fiscal year 1989 appropriation of $2.672 million, and we are urging that the funding level for fiscal year 1990 be reestablished at the 1989 level.

Senator BURDICK. Senator Kerrey.

Senator KERREY. Yes; I was pleased to see that you are urging us to restore funding for the Federal-State Market Improvement Program. I like the program, and I am familiar with it from Nebraska's Department of Agriculture.

It seems to me that there is another effort that in many ways is locally based market development, and that is the commodity purchases for the School Lunch Program.

Do you have a position that supports continuation of the traditional USDA Commodity Distribution Program?

Mr. GRANT. Yes, Senator Kerrey; we have traditionally supported that. In previous appearances before the subcommittee we have urged that in developing those programs at the local level that recommendations be made that purchases of the foods that are used in Nebraska, for instance, be purchased in Nebraska so far as possible.

We have supported that element of the agricultural programs. We believe that that is another way that we can further utilize our agricultural base for programs that are necessary for carrying out needed programs in schools.

Senator KERREY. Last week, Secretary Yeutter testified in front of the House Education and Labor Committee that he would favor what seems to me to be an opposite approach, which is an extension of the pilot program for cash in lieu of commodities—are you aware of the Secretary's recommendation?

Mr. GRANT. No, sir; I am not.

Senator KERREY. I hope that NASDA continues to hold to its traditional position, because I think the program can, in fact, serve what I think are several worthy goals, including the development of the domestic market, economic gain, and the need to provide food for people who simply cannot afford to buy it.

I think it is an awfully good program, and I hope that NASDA continues its support for it.

Mr. AMATO. Mr. Kerrey, I believe we did pass a policy a few years ago, and we did favor the commodity program. I think our policy is about 3 years old, but it is still in force.

Senator KERREY. You might consider sending a friendly letter to Secretary Yeutter indicating your support for it and pointing out how it works. He may not be aware of the current success of the program at the local level.

Mr. GRANT. We will do that, Senator Kerrey.

For the further information of this subcommittee, I believe there are 13 or 14 State departments of agriculture that have basic responsibility for those programs throughout the United States. Bob is correct. We have worked very closely with the National Association of State Food Commodity Organizations, which I believe is close to the terminology that they use, to continue to support that type of program.

Senator KERREY. With all due respect to the Secretary, he has experience with this program from a previous stint at USDA, but it has been a while since he has been there, and any information you can give him specific to the success at the local level, I think, would contribute to our being able to maintain the traditional program.

Mr. GRANT. I assure you, we will follow up on that.

Senator BURDICK. Thank you.

Mr. GRANT. Thank you, Mr. Chairman and Mr. Kerrey.

Senator BURDICK. The next witness will be John Cady, president, National Food Processors Association.

NATIONAL FOOD PROCESSORS ASSOCIATION

STATEMENT OF JOHN R. CADY, PRESIDENT

Mr. CADY. Good afternoon, Mr. Chairman. I would like my statement to be part of the record if possible, and I would like to shorten it a little bit in the interest of time this afternoon.

Senator BURDICK. It will be received for the file.

Mr. CADY. Good afternoon, sir. My name is John Cady, and I am president of the National Food Processors Association, the scientifically and technically based trade association representing some 600 member companies including most of the major food processing companies in the United States. Our member companies manufacture processed prepared fruits, vegetables, meats, fish, and specialty products, including cans, frozen, septic, dehydrated, pickled, and other preserved food items.

Also included among the association members are companies that provide equipment, supplies, and services to the food industry.

Our association also operates three food research laboratories with over 100 employees conducting studies on food safety, nutrients, and development of new processing and packaging technologies.

We share with the Food and Drug Administration a common concern for the health and safety of the food supply and for the public's continuing consumer confidence in the American system of producing and regulating food and drugs.

As consumer-driven businesses, our members recognize that their success stands or falls with consumer confidence and trust in their products. The food processing industry works extremely hard to produce the safest, most wholesome food supply in the world and to maintain the confidence of consumers.

Our long-term commitment to maintain our laboratories and scientific staff demonstrates the importance we place in the safety of our products.

We are very proud of our record, but we recognize as well the critical role played by FDA in ensuring public confidence in the American system of producing and regulating food and drug products.

Only a strong, objective, and adequately funded FDA can maintain the scientific knowledge necessary to properly evaluate the need for regulations and assure the effectiveness of regulations that are required.

Only a strong, objective, and adequately funded FDA can enforce regulations to protect the public health and safety as well as food and drug industries, whose reputations can be severely damaged by the inaccurate or misleading press stories.

Specifically, FDA's resources at the Center for Food Safety and Applied Nutrition have dwindled. The agency is losing its once strong science base. The center has difficulty attracting and keeping top scientists, and it needs more inspectors to look even more carefully at pesticide residues on imported produce.

The array of food issues the center must address is immense: the Delaney clause, many food labeling issues, microbiological problems, biotechnology, food additives, sweeteners, proposition 65 issues, packaging innovations, seafood safety, pesticide residues, and many others. The center and the public need the resources to effectively manage those issues.

Staff reduction at the FDA Center for Food Safety and Applied Nutrition is a continuing problem. The center's staff ceiling in terms of full-time equivalents have decreased steadily since 1978 from approximately 1,000 to the current 818.

Furthermore, the average age of the center's staff has increased from 43 years in 1982 to almost 46 in 1986 as a result of the continuing freeze on replacement of staff vacancies. If this trend persists, the pool of experienced professionals will continue to shrink rapidly in the coming years due to retirement and other factors.

The future strength of the FDA depends upon attracting a core of qualified younger scientists.

Compliance and field operations of FDA must not be allowed to deteriorate further. The field staff declined from approximately 3,200 to 2,700 between 1979 and 1988. As the complexity of markets FDA is charged with overseeing grows, so should the field staff.

The failure of FDA's resources to keep pace with its increasingly challenging workload is disturbing. FDA needs better facilities, top-notch scientists, and a good forensic laboratory with state-of-the-art laboratory equipment. The agency needs adequate personnel resources. In real dollars, the Center for Food and Safety and Applied Nutrition receives less than it spent in 1973.

In addition, the total research budget last year was only $3 million. The center needs improved analytical methods to be prepared for any possible food-borne safety emergencies and to do more research on planned applications of biotechnology and its impact on foods and food constituents.

We also strongly urge that FDA be given a clear congressional mandate to serve as the lead agency in areas involving food safety. The food processing industry has worked cooperatively with the Food and Drug Administration for decades on problems of mutual concern.

We have the highest regard for the expertise and professionalism of the agencies and its staff. Congress should recognize that food safety is a very broad issue involving many factors such as food additives, proper processing methods, microbiological concerns, and pesticide residues. Food safety can best be managed by an agency with a full understanding of all these factors and one that has the capability to address them all in making food safety decisions.

In our view, it is in the best long-term interest of the Nation's food safety policy to give FDA the clear lead as the agency in food safety and the funding to let it do its job. As food processors, we believe that the defense of our food supply safety for the public must be viewed equally in the same light as the defense of our country.

Thank you, sir, for the opportunity to be here today.

Senator BURDICK. Mr. Cady, you note that reduction in the Food Safety Center has reduced FDA's ability to keep pace with the growing responsibilities. What staff level would you recommend for the center?

Mr. CADY. I think that the staff level ought to be commensurate with the duties that are being newly assigned. I am not here to recommend an individual number of hours, sir. I think that is up to the FDA.

I am here to really try to bring it to the attention of the committee that these numbers have been dwindling not only in terms of just numbers but in capability and types of scientists that they have available. I think it needs to be looked into. I am sure the FDA will give you a correct number for their proposal for their budget.

Senator BURDICK. Does Elizabeth Cady Stanton mean anything to you?

Mr. CADY. Yes, sir.

Senator BURDICK. What does it mean?

Mr. **Cady**. It goes back to some of my relatives back in the yesteryears, sir. I had the pleasure to talk to you a little bit about that some number of years ago when I was representing the Snack Food Association. I used to come up for Potato Day up in East Grand Forks, and we had a little discussion about that with the Red River Valley growers up there, sir.

Senator **Burdick**. Nice to see you again.

Mr. **Cady**. Nice to see you, and thank you very much for the opportunity to be here.

Senator **Burdick**. The next witness is Ms. Mia O'Connell representing the Santa Clara Valley Water District.

SANTA CLARA VALLEY WATER DISTRICT

STATEMENT OF MIA O'CONNELL

Ms. **O'Connell**. Mr. Chairman, I am Mia O'Connell, and I am representing the Santa Clara Valley Water District. It is a privilege to be here today to discuss the importance of adequate funding for the Soil Conservation Service Public Law 566 Small Watershed Program.

Santa Clara Valley Water District provides flood control services to most of Santa Clara County, CA. It is noteworthy that through our local resources we have been able to install over $200 million in flood and erosion control projects since the early 1950's.

The remaining costs to provide 1 percent flood protection throughout the district are still in excess of $500 million. Our program goal is to provide a 90-percent reduction in flood damage potential from that which exists today by the year 2000.

This means that much of our capital improvement programs cannot be dependent upon pay-as-you-go financing or even on the use of long-term debt financing. Federal assistance is essential to the success of our flood control program.

The district is currently the sponsor for three Soil Conservation Service Public Law 566 projects. The rural watersheds are large compared with the downstream urban areas and, hence, produce flood dangers to rural and urban land users.

Although Federal assistance at the reconnaissance and feasibility study levels have been readily provided, the time required to provide investigations and to secure congressional appropriations for construction has been extremely long. This has not only threatened the health and the safety and the property in the area, but it has greatly complicated sound land use planning.

We are in a position to spend our limited local revenues on projects that qualify only for local assistance. Projects qualifying for Federal assistance are of a higher priority, but we cannot proceed with these given the inadequacy of present Federal program funding levels.

Not only is this a frustrating situation, but it is a potentially dangerous one. We are literally gambling with the safety and the well-being of the citizens in our area in the hope that the Federal commitment is strengthened.

In our Llagas Creek project, which is a Public Law 566 project representing approximately $64 million in Federal and local effort, construction is now about 50 percent complete. This project, however, dates back to the 1960's when planning was complete and construction began. It continues to suffer from limited Federal construction funding of approximately $1 million per year. It is anticipated that without significant changes in annual Federal funding for this project, completion cannot be anticipated prior to about 1996.

Our Lower Silver Creek Public Law 566 project, approximately $14 million, was approved for construction by both the House and the Senate Agriculture Committees in 1984. Since that time, however, no money has been provided for construction. With current funding levels, we are told not to anticipate completion of this project prior to the year 2006.

Our third Public Law 566 project is the Upper Penitencia Creek project. It is approximately $14.6 million, for which a favorable feasibility report and environmental impact statement was recently completed. Given the timeframe for the Lower Silver Creek project which has priority over Upper Penitencia Creek, it is impossible to be optimistic before the year 2015 in terms of Upper Penitencia Creek construction completion.

The future of our three SCS projects is clouded with uncertainty because of continued limited funding by Congress for the Public Law 566 program nationwide and more recently by the attempts by the administration to substantially reduce and eliminate the program. While we are appreciative of the subcommittee's efforts to restore maintenance level funding for the program, it is not enough. The only way our projects can advance under a reasonable timeframe is with a substantial influx of funds to the allotment that California receives each year for their SCS projects.

California's long-term allotment needs can only be accommodated if the program nationally is significantly increased. The early completion of these SCS projects is essential to our flood control program. We cannot afford to have this program abolished. On the other hand, we can hardly afford to wait 20 to 30 years for projects that are critically needed and justifiable today.

The estimated Soil Conservation Service construction backlog is $1.5 billion in Public Law 566 work nationally. In recent years Congress has appropriated anywhere from $130 to $150 million for the Public Law 566 program nationwide, yield a 10-year backlog of unfunded construction. California's share of that backlog is about $50 million, and its allotment from those appropriations for all of its projects for the last 3 years has been about $3 million annually, yielding a backlog of nearly 20 years.

In conclusion, Mr. Chairman, the Public Law 566 program, though it provides an invaluable service, is dramatically underfunded. It is urged by the Santa Clara Valley Water District that Congress confirm the importance of this program and provide appropriate funding. Without that assistance, no State or individual project sponsor within a State can be assured of consistent funding to ensure timely completion of their projects.

It is our opinion that the Small Watershed Program deserves funding of $300 million per year beginning in fiscal year 1990, and of this amount watershed construction should be funded at $200 million.

We appreciate the opportunity to address the subcommittee, and I am ready to answer any questions you may have.

Senator **Burdick**. Have you at any time engaged in conversation at least with the Corps of Engineers on this problem?

Ms. **O'Connell**. Yes, sir, we have. In our particular program area, sir?

Senator **Burdick**. Yes.

Ms. **O'Connell**. We have four Corps of Engineers projects as well as those of the Soil Conservation Service. It was the opinion of the water district when these projects were started 20 or 30 years ago, they sat down with the Soil Conservation Service and the Corps of Engineers to go through these things as they evolved, and the decisions were made as to which projects should be those of the Soil Conservation Service and which ones should be Corps of Engineers.

Senator **Burdick**. I used to be on the Interior Committee, and I know we handled most of these projects that involved the Corps of Engineers. So I wondered what it was doing in this committee. It fits. It is proper and all of that, but generally we handle these things in another committee.

You have nothing pending in the Public Works Committee?

Ms. **O'Connell**. On this issue, no; but the water district does have a number of Corps of Engineers projects as well, yes.

Senator **Burdick**. Does the Santa Clara Water District have available to it other sources of financing for watershed construction such as private lenders including insurance companies?

Ms. **O'Connell**. I am not familiar with insurance companies. Our funding sources come from a variety of areas. The District can raise property taxes. They have a benefit assessment district. Of course, State and Federal funding is available. Those are the funding sources available to the district right now.

Senator **Burdick**. Have any of those funds been committed; for example, State funds?

Ms. **O'Connell**. Yes, sir; there is a State subvention program which assists water districts in reimbursing a water district for the lands that they acquire for Federal projects. The water district is receiving funds from the State now for its Federal projects as they come on line.

In essence, the State assists water districts in the acquisition of property. They reimburse water districts up to 80 to 90 percent for their costs and land acquisition.

Senator **Burdick**. These projects are really funded by the States as well as the Federal Government?

Ms. **O'Connell**. And the local districts, yes.

Senator **Burdick**. Thank you very much.

Ms. **O'Connell**. Thank you so much.

Senator **Burdick**. Our next witnesses are Dr. Charles Arntzen and Dr. Perry L. Adkisson representing the Texas A&M University system.

Welcome to the committee.

TEXAS A&M UNIVERSITY SYSTEM

STATEMENT OF DR. CHARLES J. ARNTZEN, DEPUTY CHANCELLOR AND DEAN OF AGRICULTURE

ACCOMPANIED BY DR. PERRY L. ADKISSON, CHANCELLOR

Dr. ARNTZEN. Thank you, Mr. Chairman. My name is Charles Arntzen. I am deputy chancellor and dean of agriculture at Texas A&M University. I am accompanied by Dr. Perry Adkisson, the chancellor of the Texas A&M University System.

My role today is to support our request for construction funding through CSRS budget in the amount of $11.25 million. This will provide partial support for the construction of a new facility in Houston, TX. This research center will house the Institute of Biosciences and Technology, a unique research institute that is part of the Texas A&M University System.

The facility that is being constructed will be located in the Texas Medical Center in Houston, but it is functionally organized as a component of the college of agriculture and the agriculture programs of Texas A&M University in College Station, TX. As you may recall, we are about 90 miles north of Houston.

We are extremely appreciative of the support from Congress in the past, including a $50,000 appropriation for a feasibility study in fiscal year 1988 and a $1.25 million allocation toward construction in fiscal year 1989.

Your support is being used to match and complement resources which have been made available by our campus. Texas A&M University System fully funded the design of this facility in Houston and has given a commitment to provide approximately $13 million of construction money needed to supplement the CSRS request.

The Institute of Biosciences and Technology represents a unique opportunity. We are going to formalize a collaboration between the world renown medical research activity currently under way in the Texas Medical Center and the agriculture and veterinary science programs conducted at Texas A&M University. To demonstrate our commitment to building ties between medicine and agriculture, we have already established individual collaborations between the A&M researchers and members of the medical complex with money provided by the Texas A&M University System.

Establishment of a research institute physically located in the Texas Medical Center will strengthen these efforts. The institute will create a new critical mass of researchers. The institutes of the Texas Medical Center conduct more than $200 million in research annually.

In addition, Texas A&M University itself has more than $200 million in sponsored research each year. This number brings us into position number eight among universities nationally in sponsored research.

What I am trying to get to here is we have a research base on which to build, and by tying the medical center and our university together, we think we can do some great things in medical linkage to agricultural research.

We have a number of specific goals:

First of all, to strengthen these collaborations in medicine and agriculture;

Second, to stimulate new research initiatives and collaboration by recruiting key scientists, new scientists to be engaged in multidisciplinary research;

Third, we will provide a forum for exchanging ideas between the agricultural and medical research communities; and

Fourth, we want to assist in technology transfer from the laboratory to the marketplace.

Let me just deviate from the text by saying we are involved now in planning the early stages of hiring faculty and implementing our plans. We have a major goal here of trying to put together research programs that will allow technology transfer into agriculture.

As you know, in agriculture we are already good at making use of our research findings. We intend to continue this tradition in a biotechnology center.

You have undoubtedly heard much about the biotechnology revolution. That has dawned as a result of breakthroughs in basic biology. What I would like to do is address the emerging opportunity for American industry. The biotech industry is already predicted to generate annual revenues in excess of $100 billion by the year 2000. This means economic diversity in the form of new and expanded businesses.

Our research to be conducted in this Institute of Biosciences and Technology will provide the basis for the development of new products and services in the agricultural, pharmaceutical, chemical, medical, and food industries.

The Institute of Biosciences and Technology with its initial focus on comparative animal genetics will play a major role in supplying the critical link between human and animal genetics. Together with other Texas Medical Center institutions that are leaders in human genetics, the institute will help create one of the Nation's leading centers for biotechnology research in general and comparative mapping of human and animal genomes, which is the basic chemical genetic blueprint of animals and humans.

The programs of this first center which will be housed in our new building will focus on three areas of scientific emphasis. First, genetics. This will include research on gene mapping and sequencing, transgenic animals, gene therapy, and animal models of human diseases.

Second, we will do researching molecular and cell biology with a major emphasis on embryo transfer and fertility research.

Last, we will do studies in protein engineering that will involve the development of improved diagnostics, therapeutics, and vaccines.

Let me simply say that our goal in this research institute is to design the food for the future. We are putting together the building blocks that will allow us to accumulate a basic understanding of tools of biotechnology that are going to be put to use in an agriculture and a veterinary medicine center to provide better and safer food for the future.

Mr. Chairman, I appreciate this opportunity to make this presentation in support of our request for the construction funding in the amount of $11.25 million to support the Institute of Biosciences and Technology, a component of the Texas A&M University System.

Thank you very much.

Senator **Burdick**. If Federal matching funds for construction of the Texas A&M University biosciences facility are provided, will the university fund equipment and other operating expenses?

Dr. **Arntzen**. Yes; we have a threefold program right now that will help establish this institute.

First of all, we have established a capital campaign in which we are asking private citizens in Texas to contribute funds toward endowed chairs, equipment and to fund individual laboratories. I should say this has just kicked off in January, and we are having good success in raising funds for this institute.

Second, we have a State allocation request into the biennium budget. We are now in the process of going through our State budget planning in Austin. We should know in about 30 days, but we have a $10 million request in for programmatic funding for this institute. It will begin next year, and we will slowly ramp up. We have every assurance from our legislators that we will get at least a very substantial part of this $10 million request.

So we have a threefold basis for funding: private contributions, State support, and we are asking for this contribution-matching money for construction from the Federal Government.

Senator **Burdick**. $25 oil might be helpful.

Dr. **Arntzen**. We would be happy if you could do something to get the price of oil up, Mr. Chairman.

Senator **Burdick**. We are kindred spirits, you know.

With that matching basis, how much are you asking from the Federal Government at this time?

Dr. **Arntzen**. This time around we are asking for $11.25 million, which together with the $1.25 million we had from you last year will match the contribution of Texas A&M University, which is a $13 million contribution.

Senator **Burdick**. Thank you very much.

Dr. **Arntzen**. Thank you, Mr. Chairman.

Senator **Burdick**. The next witness is from Iowa State University, Dr. Gordon Eaton, president.

Iowa State University

STATEMENT OF DR. GORDON EATON, PRESIDENT

ACCOMPANIED BY DR. MICHAEL CROW, DIRECTOR, OFFICE OF SCIENCE POLICY AND RESEARCH

Dr. **Eaton**. Thank you, Mr. Chairman. With me this afternoon is Dr. Michael Crow, who is director of our Office of Science Policy and Research. We both appreciate the opportunity to appear before you.

As we have sat here for the last 1½ hours listening to the testimony of those that preceded us, I have been impressed that you are hearing a wide array of topics linked primarily through the area of agriculture, but no two have been very much alike.

On the other hand, the two gentlemen who just testified on behalf of the Texas A&M University System and who are close friends and former colleagues of mine have begun finally to talk about an area that I would like to talk with you about this afternoon as well.

We are here to support a proposal which we submitted last year for the creation of a center for designing foods to improve nutrition. Fundamentally, what we are doing is proposing to create a National Nutrition Research Center to focus on a number of aspects of human nutrition that are not currently being addressed by the five existing ARS nutrition centers, including that in Grand Forks, ND.

I will come back in a minute and talk a little bit about the difference between what it is we are proposing and what is going on at these other centers, because I think it is very important for you and the staff to understand the significance of what it is we are attempting to do to fill what we regard as a very large gap in this area.

Before I do that, I would like to place the remarks I am going to make within a couple of contexts that I think are important for you to understand. One of those contexts will be, in fact, the work at the other ARS centers. The other relates to the fact that Iowa, like Texas, is one of the top three agricultural States in the country in terms of gross cash farm receipts.

What we are proposing to do is a broad spectrum, almost system, approach to the notion of nutrition that will take us all the way through the chain from the process of food production and the processing of foods to the consumer and to consumer preference. So it is a much more broadly directed program than that at the other centers.

I would like to mention first of all the fact that none of the existing ARS human nutrition centers has available to it in terms of the institutions where they are sited all of the components of food production and food processing, agricultural economics, policy research, nutrition education and basic nutrition research.

I would also point out that your home State and mine are in different formal regions, yours in the Great Plains area, ours in the Midwest area. There are currently no ARS nutrition centers or programs in the Midwest area despite the fact that this is a very large producer of food for the Nation as a region or as an area.

Finally, I would make the observation that none of the existing five programs are colocated with land grant universities or institutions in which agricultural research is something that is going on at the present time.

In the recent National Research Council report "Designing Foods," of which I am sure you have seen a copy, several questions are raised regarding the technical options to alter animal products to enhance human nutrition. Some of the questions that are raised here are specifically questions which we hope to address in our center.

Let me back up and remind you that we appeared before you last year, and the Congress saw fit to provide $280,000 for the design and planning of this center. That design work is complete. We want to address the questions in this volume as follows:

What components of animal products are in fact important to human nutrition and health?

What components of animal products can be beneficially altered through genetic engineering with current technologies or through additional research in order to enhance their nutritional value?

What effect does altering the components of animal products have on the shelf life of those products; the visual appeal, the flavor, the texture, the safety, the nutrient content and the stability of different retail products?

Finally, are there standards of identity or regulatory aspects that preclude or might seriously impede the development of new or altered animal products?

These are some of the things that we would like to address in this center. The major objectives of this center as we conceive them are:

The design and development of new foods to improve nutritional quality with very specific consideration based on careful studies of consumer preferences—why humans choose certain foods over others;

To identify in foods the naturally occurring nutrients, protectants, toxants and nonnutritive factors that affect nutrient utilization and health;

To improve strategies for predicting and ultimately for modifying food selection and consumption to ensure and improve the nutritional status of consumers;

To develop educational and marketing strategies; to enhance and improve food selection and consumption; and

Finally, to provide information that could serve as a basis for the development, implementation, and evaluation of food and agricultural policies.

So the focus of this program is one that is overarching and begins with food production, the production of raw agricultural products, and takes it through food processing and addresses issues of food policy and looks at the issues of why certain foods are preferred by free choice and whether or not these are, in fact, the most valuable in terms of human nutrition.

I think with that I will conclude my remarks, and we would be pleased, either one of us, to answer any questions you may have.

Senator BURDICK. You referred to the gap in nutrition and food protection research. Does this gap take into consideration research under way by private sector and trade associations such as the National Food Processors Association?

Dr. CROW. I think, Senator, I can address that.

We have shared this concept of the center with all of the major food processing and meat processing groups in the country and have gotten relatively strong support from them. Some of that support was shared with your committee last session. Some of that will be shared again this session.

In terms of food processors, most particularly meat processors, there is strong interest in any type of research activity that might be undertaken by the Department of Agriculture in terms of designing new advanced meat products.

Dr. EATON. Relative also to that question, Mr. Chairman, but not specifically addressed by your words is the fact that we have undertaken a series of visits to each of the other ARS centers to, in fact, assure that we are not duplicating something that is under way at those centers.

Dr. CROW. Also, when the center design was put together there was an external review committee brought in by the university made up of people from the USDA, from the Food and Drug Administration and from various other universities and industrial groups to help us think about the best way to help us carry out this research, the best way to address the National Academy of Sciences study.

Senator BURDICK. Would the $5.8 million you request comprise the full Federal appropriation needed for the nutrition center including equipment and operating costs?

Dr. EATON. As it is put forward at the present time, the answer is yes. As you may know or perhaps information you have may indicate, the State of Iowa has put forth a like amount.

In conversations that Dr. Crow and I had this morning with Dean Ploughman and Jerry Combs and Robert Olchin of ARS wherein Mr. Combs has as his principal concern programs of nutrition, they raised that same question. In the discussion that followed, we talked about an alternate scenario which might be to colocate some scientists, ARS scientists, USDA scientists, at this location, in which case then we would be perhaps seeking some additional operational funding for their share of the operation of this facility. That is, however, kind of distant in terms of a final decision.

Senator BURDICK. Thank you very much.

Dr. EATON. Thank you, sir.

Senator BURDICK. Our next group will be the Health Industry Manufacturers Association, Frank Samuel, Jr., president; Daniel F. O'Keefe, Jr., senior vice president; Richard D. Godown, president, Industrial Biotechnology Association; and Gerald J. Mossinghoff, president of the Pharmaceutical Manufacturers Association.

HEALTH INDUSTRY MANUFACTURERS ASSOCIATION

STATEMENT OF FRANK E. SAMUEL, JR., PRESIDENT

ACCOMPANIED BY:

DANIEL F. O'KEEFE, JR., SENIOR VICE PRESIDENT AND GENERAL COUNSEL, THE PROPRIETARY ASSOCIATION

RICHARD D. GODOWN, PRESIDENT, INDUSTRIAL BIOTECHNOLOGY ASSOCIATION

GERALD J. MOSSINGHOFF, PRESIDENT, PHARMACEUTICAL MANUFACTURERS ASSOCIATION

Mr. SAMUEL. Thank you, Mr. Chairman. I am Frank Samuel, president of the Health Industry Manufacturers Association. My colleagues will introduce themselves in turn.

We are very pleased to be here again before this subcommittee, first of all, to thank you for the support you have shown of the Food and Drug Administration over the past several years. That agency is at the crux of many of the major health and safety issues affecting us as a nation.

We are here to support the budget request of $512 million. Beyond that, specifically in the medical technology area, we feel that FDA's request should be supplemented by another $1 million to fund approximately 20 full-time equivalents targeted to the medical technology review process.

Finally, as you will hear from, I think, all of us, we feel that FDA should be funded directly and clearly through appropriated funds, not through taxes on research and development.

I want to spend just a few minutes on this latter point because I think it is one that is obviously very serious for the committee. You are faced with many requests, and why should we not step up and, in effect, take part in this burden.

I think the best analogy that I can think of is to compare a tax on medical devices, medical technologies to a tax, if you will, sir, on seed corn. New forms of seed corn are the way that we improve yields, the way that we have better crops, the way that we have better nutrition, better economic status and health for farmers.

If we tax new products, which is what is being proposed by this user fee proposal, then, in effect, we are saying that we are going to place the economic burden of running a public safety agency on those parts of the system that are really our chief hope for improving our lives and improving the lives of our children.

I think that for a public safety agency which has been given a serious responsibility by this Congress and by the Nation, it is clear that the responsibility for that rests with publicly appropriated funds.

I would like to say also that the agency has shown, I think, significant progress with the funds that have been given to it by this committee and by the Congress. In our case, in the medical device case, improvements in product approval times have been made with the funds you made available. We want to see that improvement continue because approval times are still 50 percent more than those specified by Congress in the medical device legislation.

In summary, Mr. Chairman, we are here to express our appreciation for the support that you have shown to the FDA in the product approval area over the last 3 or 4 years under very tight budgetary circumstances, to urge the importance of continued strong support for FDA's mission, and to say in closing let us not tax our seed corn.

Thank you very much, sir.

STATEMENT OF GERALD J. MOSSINGHOFF

Mr. MOSSINGHOFF. Thank you, Mr. Chairman. My name is Gerry Mossinghoff. I am the president of Pharmaceutical Manufacturers Association. We represent all of the major pharmaceutical houses involved in research and development and many, many of the smaller companies involved in that same thing.

Prompt approval by the Food and Drug Administration of new drug applications is absolutely essential to the health of the American people and the continued ability of the pharmaceutical industry to discover and develop new medicines.

We, therefore, strongly support appropriations of the full sums necessary to carry out the programs outlined in the President's budget together, if the committee could find it, with an additional $50 million to address secured resources needs of the agency.

At the same time we urge the subcommittee, as it has done in the past, to reject the administration's proposal to offset appropriations by opposing a $100 million user tax on innovation. Without user fee receipts, the administration actually is proposing an unprecedented budget cut of $61 million or 13 percent from current year appropriations for the Food and Drug Administration. This cutback would be proposed at a time when new drugs are urgently needed for AIDS, Alzheimer's disease, cancer, stroke, heart disease, and many other uncured diseases.

The research-based pharmaceutical industry is totally committed to discovering and developing these urgently needed new medicines. Sixty-seven new drugs and vaccines are now being tested for AIDS, and 221 new medicines are currently in human test in our industry to treat 31 diseases that primarily affect older persons.

With this amount of research in the pipeline, it is critically important that FDA be equipped to handle the work. The full budget request of $513 million should be approved for FDA in fiscal year 1990, Mr. Chairman, by appropriations without resort to user fees together if possible with an additional $50 million to address basic resource needs that have too long been deferred: more professional staff, more office space, updated technical equipment, and better opportunities for advanced training.

Mr. Chairman, we deeply appreciate this opportunity to appear before the committee.

STATEMENT OF RICHARD D. GODOWN

Mr. Godown. Mr. Chairman, my name is Richard Godown, and it is my pleasure to appear before you on behalf of the Industrial Biotechnology Association. We are a trade association which represents 88 companies, large and small, who are involved in every aspect of biotechnology. This includes pharmaceuticals, medical diagnostics, vaccines, animal drugs, food processing, agriculture, energy, and environmental applications.

Since most of the new products coming from the industry cannot be marketed without prior FDA approval, adequate FDA resources are essential to our industry's ability to develop and sell new products. As a result, IPA is strongly opposed to the proposed major cuts in the Food and Drug Administration's fiscal year 1990 budget.

In point of fact, we support full funding for the agency plus an additional $50 million to satisfy pressing personnel and facility needs.

Even without the proposed cuts, IPA is convinced that the FDA does not have adequate resources to recruit and retain enough qualified staff to expeditiously review important new products. IPA strongly believes the timely approval of new drugs, medical devices, and FDA-approved products is in the public interest.

Any proposal to offset budget cuts by adding a user fee would negatively impact on future research and development by increasing new drug development costs. Of special concern to the biotechnology industry is the effect on small companies, since we are made up in large part by small companies. For these companies, user fees would truly represent a burden. To require an up-front payment of a user fee is an unwarranted burden that would be added to the already high cost of research and development which falls so heavily on the small companies in our industry.

Science and technology progress will lead to economic growth and development for the United States both here and in international markets. We believe the Government must encourage the pioneer spirit of entrepreneurialism that plays so prominent a role in the development of science and technology.

This administration has sought to encourage the development of small business. This proposal would stifle it. Because of projects not pursued due to cost, the U.S. international competitive position, currently No. 1 in biotechnology, would be adversely affected.

Furthermore, in many cases user fees could be imposed for items that never reached the commercial market, while currently marketed products avoid the fee even though FDA resources are expended for post-market surveillance.

We believe that both the public and private sectors are best served by the current system.

This proposal would also require the establishment of an individual billing approach for agency action and will require the creation of a separate accounting bureaucracy to keep track of direct and indirect personnel costs, consultant fees, et cetera. We think that this would be unnecessary and unwise.

I will conclude simply by saying that IPA believes that this proposal is ill conceived and should be abandoned.

STATEMENT OF DANIEL O'KEEFE

Mr. **O'Keefe**. Mr. Chairman, I see that our time has run out. With the Chair's indulgence, could I have just a moment to very briefly summarize our remarks?

Senator **Burdick**. I will give you 2 minutes.

Mr. **O'Keefe**. Thank you, sir.

Mr. Chairman, my name is Dan O'Keefe. I am senior vice president of the Proprietary Association. We represent nonprescription medicine manufacturers, both large and small companies, of which about 95 percent are sold in the United States. These are products like Vick's, Bayer aspirin and Tylenol, products like this that you have in your medicine cabinet at home.

We, too, fully support and endorse the Food and Drug Administration and the excellent job it is doing. We endorse full funding for the agency, whatever it needs to get its job done properly. This is an important agency, and we believe in it strongly.

We strongly oppose user fees for many of the reasons that my colleagues have pointed out this afternoon. In our industry's case in particular in the nonprescription industry, we think that a user tax would be a barrier to switch. Switch is the orderly process of movement from prescription status to nonprescription status for drugs that are appropriate and safe and can be moved to nonprescription status from the public safety standpoint.

This is good for the American consumer and good for health care costs because it will tend to lower costs to both the Government and the consumer, and it is of benefit to both.

Mr. Chairman, thank you very much.

Senator **BURDICK**. Thank you.

Despite concern of many of the Senators on this subcommittee, it appears that user fees could still be on the table in the budget committee negotiations.

I understand that the Patent Office uses a two-tiered user fee system under which larger companies pay twice as much as that paid by small companies or individual inventors. Would a similar program work for FDA, and why or why not?

Mr. **MOSSINGHOFF**. Mr. Chairman, I will try to answer that. I was Commissioner of Patents for 4 years during the implementation of that user fee proposal.

I think there are significant differences between the Patent Office user fees and those proposed by FDA. In the Patent Office, getting the grant of a patent does give you something that you otherwise did not have.

As far as FDA and new drug manufacturers go, we have the drug and we are ready to put it on the market, and the Congress, quite properly I think, has decided we cannot do that until an agency decides whether the drug is safe and effective. We support fully the Food and Drug Act in that regard, but it is certainly not something where we have an option. I think that is one major difference.

The second difference certainly from the FDA's point of view is that the flow of applications into the Patent Office are very steady. At the time I was there we got 112,000 patent applications in, give or take a few. You still could plan on an orderly budget.

You are dealing in the Food and Drug Administration with very small numbers of applications, perhaps 30 new drugs filed in 1 year, 20 in the next. It is a very uneven form of funding.

A third and major difference is the fact that in the Patent Office we regulated no one, we did not deal with a regulated industry. PMA is a regulated industry, and there are certainly issues of conflict of interest to have us providing or not providing, as the case may be, funding for the people who are put in place by Congress to regulate us. So we think there are very significant differences.

With respect to the way you could devise it, I think probably there could be systems set up. There obviously has been set up for the Patent Office ways of treating independent inventors from large corporations.

But in any event, the three major flaws would remain, and we would urge the committee to again proscribe the use of user fees.

Senator **BURDICK**. This morning we received testimony from a number of groups recommending that we reject user fees and provide an increase of $50 million over the administration's budget for FDA.

What problems could we expect $50 million to solve for FDA?

Mr. **MOSSINGHOFF**. Mr. Chairman, I think that there is a need. This is something that the committee is obviously going to want to look carefully at with the staff, but the $50 million we think could be used for retaining highly skilled technical and scientific personnel at the Food and Drug Administration. The Parklawn facility is not up to the standard of the U.S. Government. It really does need either expansion or some room to provide decent quarters for the people who work out there. So we think there ought to be some feasibility studies done on what to do about the facility needs.

Certainly there is a need for modern equipment. I took some of the members of our board of directors out there, and as we walked through the offices on a tour conducted by Dr. Frank Young, one of our directors sarcastically said I think that may be the first IBM typewriter ever made. It was in one of the offices of the Food and Drug Administration.

So there is a pressing need simply to upgrade this very critically important agency to bring it up to the standards of many other agencies. I was in the Government for 25 years with NASA and the Patent Office, and I can say that the facilities and equipment are substandard at the Food and Drug Administration, and it is certainly no less important than the other important agencies.

Mr. GODOWN. Not only that, Senator, but if you will forgive me for a moment, I understand FDA is spread out in 23 separate sites, and it is just plain inefficient, and it adds to the holdup in the drug review process. We feel that if the dollars were given to FDA so that they could at least get some sort of decent facilities and bring their people together, you would certainly realize some efficiencies from that.

Senator BURDICK. Well, gentlemen, I am sure you understand that dollars are hard to get at this time, but we will handle this as carefully and as best we can. We thank you for your testimony.

Our next witness is Dr. Max Lennon, president of Clemson University, associated and assisted by Senator Strom Thurmond.

CONGRESSIONAL WITNESS

STATEMENT OF HON. STROM THURMOND, U.S. SENATOR FROM SOUTH CAROLINA, ON BEHALF OF CLEMSON UNIVERSITY

CLEMSON UNIVERSITY

STATEMENT OF DR. MAX LENNON, PRESIDENT

ACCOMPANIED BY:

- DR. BOB GILLILAND, ASSISTANT TO THE PRESIDENT
- DR. JIM FISCHER, DIRECTOR, SOUTH CAROLINA AGRICULTURAL EXPERIMENT STATION

Senator THURMOND. Thank you very much, Mr. Chairman. This is Dr. Lennon here, who I will introduce in just a few moments.

Mr. Chairman, I want to thank you and the other members of the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies for the opportunity to testify here today.

Mr. Chairman, as we all know, the Federal budget for fiscal year 1990 is very tight; therefore, we must seek to allocate funds to those areas which yield the greatest returns. It is only through careful setting of priorities that we will be able to fund the most worthwhile programs and control runaway Federal spending.

One area where research funding has proven to be cost efficient and beneficial is in the field of agriculture. The agricultural industry in the United States utilizes the latest in technological innovation, enabling our farmers and agribusinesses to maintain an advantage over our competitors.

It is essential that we continue to maintain an advantage in this area, especially since our agricultural industry has been suffering from the effects of unfavorable exchange rates and competition from our agricultural trading partners.

I am particularly interested in a number of very important research programs and wish to emphasize the need for their funding.

Mr. Chairman, the first of these high priority programs is the Agricultural Adjustment in the Southeast through Alternative Cropping Systems Program being conducted jointly by Clemson University, the University of Georgia, and the North Carolina State University.

For the past 5 years, these three universities have been conducting an innovative research program to improve the marketing and production practices of farmers. This program is aimed at increasing and stabilizing farm income in the Southeast through the development of alternative crops suitable to that region of the country.

The agricultural economics and horticulture departments of the universities involved work together to define market windows for certain crops. These windows help increase revenue to the farmers while providing markets with healthy commodities. Continued support of this project will help farmers adjust to their changing marketplace.

Accordingly, I kindly request that the subcommittee appropriate $285,000 to continue this important program.

Next is the Peach Tree Short Life Research Program. The Peach Tree Short Life Research Program is another example of our use of science to improve agriculture. This program is investigating the causes of premature death of young peach trees. This is caused by damage primarily inflicted on the root system by various nematodes.

Since DBCP was banned in 1979 as a soil fumigant, no effective replacement has been developed. This research has identified production practices which lessen the instance of this parasite, but further work is needed. If funding is continued, future research will concentrate on determining the cover crops which are poor hosts or inhibit the growth of these deadly nematodes.

Mr. Chairman, I respectfully request $200,000 for this research project to continue.

Next is the International Trade Development Center. International trade is crucial to the agricultural and rural communities of the South. Trade of food, fiber, and natural resources is important to this region, and marketing changes in these products dramatically affect the Southern economy.

During the 1970's nonmetropolitan counties in the region increased imports due to favorable trade conditions, but when prices declined in the early 1980's the most severe damage occurred in the South.

Between 1982 and 1987, for every 1 acre taken out of production by Midwestern farmers, the South lost 2 acres. This has caused hardships for agribusinesses and rural communities.

Once again, we need to develop our technology to cope with international market fluctuations and to expand our market share.

In order to aid in the development of this essential technology, it has been proposed that an International Trade Development Center be established. The primary purpose of the trade center would be to increase the international trade potential of businesses, especially small to medium-size firms. These firms figure prominently in the continued economic growth of Southern States. Trade center efforts will include research on critically needed information about new markets and products, trade barriers, foreign cultures as well as export shipping of commodities.

This project is a joint effort among the College of Charleston, Clemson University, South Carolina State College, a very prominent black college in our State, and USC-Coastal Carolina. The major commodities and products included in this program will be southern pine, soft red winter wheat, selected fruits and vegetables, processed foods, as well as cotton.

Extension outreach programs will be developed and utilized to inform businesses of the opportunities in international trade. There will be a close working relationship with the South Carolina Ports Authority, the State Development Board, and the South Carolina Department of Agriculture to aid in the success of this project.

The broad base of the university, college, and government programs represented by this center will be the key to its success and long-term viability.

Mr. Chairman, while this program would be conducted in South Carolina, the benefits would help all of the Southern States. I request that the subcommittee commit $1.15 million to help get this important research effort under way.

Now Mr. Chairman, it is a pleasure for me to introduce our witness today. I now would like to introduce a fine gentleman from South Carolina who will also address several research programs at Clemson University, Dr. Max Lennon.

Dr. Lennon is the President of Clemson University and has taken a great interest in research efforts to help the farmer and rural communities of our State and region. Under the direction of Dr. Lennon, Clemson has been conducting research to improve the economic situation of our farmers with particular attention being given to solving the agricultural problems of the Southeast.

Mr. Chairman, I appreciate your allowing Dr. Lennon to address this committee today, and I am confident his testimony will be beneficial to you and the other committee members in your efforts to prepare the fiscal year 1990 Agriculture, Rural Development and Related Agencies appropriations bill.

Dr. Lennon is accompanied by Dr. Bob Gilliland, assistant to the president, and Dr. Jim Fischer, director of the South Carolina Agricultural Experiment Station at Clemson.

I now take great pleasure in presenting to you Dr. Lennon, the president of Clemson University.

STATEMENT OF DR. MAX LENNON

Dr. LENNON. Mr. Chairman, it is a distinct pleasure for me to appear before your committee jointly with our distinguished Senator from South Carolina, the Honorable Strom Thurmond.

My role today is to bring to your attention two very important programs within the USDA Agriculture Research Service. The first that I will discuss is the USDA/ARS Vegetable Research Laboratory at Charleston, SC. This is a regional laboratory serving the Southeast and has been in existence for 50 years. In fact, faculty scientists from Clemson University and other land grant institutions in the Southeast have been in partnership with the USDA/ARS scientists located at that laboratory for these 50 years. Their success has been phenomenal.

Over 80 percent of the U.S. production of cucumbers has been as a direct result of varieties developed at that laboratory. Over 90 percent of the watermelon and tomato production in the Southeast is a direct result of varieties developed at that laboratory. The list goes on.

As you know, we have some significant problems confronting us. The first that I would mention is that of international competition. As I work with corporate executives in the international food industry, it is my realization that each year we are importing more and more of our vegetables. We must do something, Senator, to provide opportunities for our growers to be competitive.

Second, we are hearing more and more frequently a concern for a wholesome food supply; that is, the use of fewer chemicals in the food system.

As a result, it is our belief as we have jointly planned with the USDA scientists an exciting research program to incorporate the latest tools of biotechnology or genetic engineering into that research program. As a result, we will be able to produce significant new cost reduction opportunities for our growers and a wholesome food supply for our citizens.

Genetic engineering, Senator, will enable us to significantly shorten the time interval from idea to product. We are talking about significant time reductions. It is indeed exciting and worthy of our attention. We urge your support of this program.

The second laboratory and program that I mentioned is the Appalachian Fruit Research Station at Kerneysville, WV. This laboratory has been extremely important in producing varieties of tree fruits. Our specific interest in the State of South Carolina is principally peaches. We still produce a large percentage of this country's fresh peach production.

We also are aware that the new Secretary of Agriculture, Dr. Clayton Yeutter, is keenly interested in responding to the U.S. scientific community's strong recommendation that we aggressively pursue the objective of mapping genes in our various important plants in food production.

We know that Dr. Yeutter, in working with others within the USDA, is developing a very systematic approach to this process. The results again will enable us to identify the specific genes as to their traits and their responsibility in controlling various processes within the cell or organism. As a result, we will be able to engineer plants in such a way that we will be able to increase yields even though we have a rather harsh environment or in the presence of various pests. Again, it is a very exciting opportunity.

We would urge your support of that program at Kerneysville. Our scientists are working aggressively in partnership. We are working with those Federal laboratories with the use of graduate students and, therefore, in our process of research are producing excellent Ph.D. and Master's degree students who will go out into the work force and make an exciting difference in our community.

Mr. Chairman, it has been a pleasure for me to appear before you to urge your support for these programs. We believe that the basic industry for our Nation is, indeed, a competitive and wholesome food supply.

Thank you.

Senator **BURDICK**. Thank you.

What is the amount you are requesting for the Appalachian Fruit Research Station in West Virginia?

Dr. **LENNON**. The question is specifically related to the Kerneysville station as to the amount of moneys requested. The number that I have for next year is $750,000 to initiate this program, and it would be expected to continue for several years.

This process of mapping the genome for the peach tree and related fruit crops will require a significant number of scientific manhours or man-years, but the return on this investment will be enormous.

Senator **BURDICK**. I would like to thank my colleague and thank you all for your contribution here today. This will conclude today's hearing.

Senator **THURMOND**. Mr. Chairman, I want to thank you very much for hearing us at this time, and I want to say South Carolina, like North Dakota, is a great farming state, and we appreciate your interest and consideration.

CONCLUSION OF HEARINGS

Senator **BURDICK**. I will not argue that for a minute.

The committee stands adjourned. This concludes today's hearing, and it concludes our review of public witness testimony.

I would like to thank the witnesses who over the 3 days of hearings have shared their time and expertise in order that the subcommittee might better understand how these agriculture and rural development programs affect them.

This also concludes our scheduled hearings on the 1990 budget.

The subcommittee will reconvene at the call of the Chair. The subcommittee stands in recess.

[Whereupon, at 5:25 p.m., Thursday, April 20, the hearings were concluded and the subcommittee was recessed to reconvene at the call of the Chair.]

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